THE FREEMAN

IDEAS ON LIBERTY

Isaiah's Job

Albert Jay Nock: A Gifted Pen for Radical Individualism

A History Lesson for Free-Market Pessimists

Promoting Development or Getting Out of the Way

MARCH 1997

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IDEAS ON LIBERTY

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PERSPECTIVE

The Role of Government in Society

Some time ago the Intercollegiate Studies Institute (ISI), now headquartered in Wilmington, Delaware, ran a series of student seminars around the country on the Role of Business in Society (ROBIS). I know, for I ran one at Campbell University in 1978 that featured free-market stalwarts like Walter Williams and the late Arthur Shenfield.

Surely the role of business deserves depiction and discussion. But so does, and I think more so, ROGIS—standing for Role of Government in Society, an acronym coined by Edward A. Prentice of the Mount Hood Society of Portland, Oregon, and Professor Fred Decker of Oregon State University. There are at least three key questions relating to that role:

Precisely what role should the state play in society, including the economy? How should that role tie into America's concern over individual rights so magnificently framed in 1787 and ratified in 1791 as the Bill of Rights? And what of the principle of federalism embodied in the Tenth Amendment as:

"The powers not delegated to the United States by the Constitution, nor prohibited by it to the States, are reserved to the States respectively, or to the people"?

Overarching these questions is, I think, the nature of man and the admonishment of an angry Lord Jehovah who, on banishing sinful Adam and Eve, thundered down on them: "By the sweat of thy face shalt thou eat bread." For suddenly the Garden of Eden and its boundless plenty were no more. Instead, productive resources, including time, were limited, sharply. The law of scarcity was in, starkly. Adam and Eve and their issue down to this hour faced—face—a life that Thomas Hobbes baldly said in his *Leviathan* (1651) was "solitary, poor, nasty, brutish, and short."

So man, then and now, is in a fix, caught in a law of trade-offs. He can't have his bread and eat it too. He must weigh unlimited ends against limited means. So Nature forces him to make hard choices on the correct

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construct of the state—as society's protector or provider or both.

Life is about choices. In making economic decisions, individuals must choose among scarce resources that have alternative uses. They must try to conquer or, more accurately, lessen scarcity. But how?

How, indeed, when everyone is choosing from among the same scarce resources? Is this not a recipe for chaos if not bloodshed, the law of the jungle? Particularly in light of the condition of man, which Hobbes, for his part, saw as "a condition of war of everyone against everyone"?

But man's lot is not war but peace—*if* with a proviso of a proper role for government: a system of private property rights, limited government, a state not as a coercive provider of goods and services but as a peaceful protector of life, liberty, and property.

From this construct, based on the original U.S. Constitution and Bill of Rights, emerged a system of free markets: a price system, capital investment, international trade, positive entrepreneurship. So the Founders unleashed Adam Smith's mighty Invisible Hand—personal incentives under the rule of law driving this remarkable system of freedom and free enterprise, of social cooperation and international harmony, called capitalism.

Despite capitalism's success, people often ask: Why is poverty so widespread within the nation and across the world? That's the wrong question. For, as noted, man is born into scarcity; poverty is his natural condition. Adam Smith raised the right inquiry: Why wealth? Thus, *An Inquiry into the Nature and Causes of the Wealth of Nations.*

This "inquiry"—Smith's much-overlooked title word—needs economic education, a widespread understanding of ROGIS, of how capitalism and the world work—an understanding, by the way, sought by Leonard E. Read, in a stroke of brilliant entrepreneurship, when he began The Foundation for Economic Education in 1946.

Ludwig von Mises, FEE's academic adviser for more than 25 years, warned of boomeranging state intervention in *Human Action*:

"All varieties of [state] interference with the market phenomena not only fail to achieve the ends aimed at by their authors and supporters, but bring about a state of affairs which—from the view of their authors' and advocates' valuations—is less desirable than the previous state of affairs which they were designed to alter."

The idea of ROGIS then is pivotal. Government is necessary, yes. But, as noted by George Washington: While government can be a helpful servant when limited, it becomes a fearsome master when unlimited.

Overextended government that reaches beyond the rule of law—fostering interventionism and the Welfare State—is an idea whose time never should have come. This issue of *The Freeman* explores, retrospectively and more so prospectively, government's proper role.

—William H. Peterson

Dr. Peterson, a Heritage Foundation adjunct scholar and Distinguished Lundy Professor of Business Philosophy Emeritus at Campbell University in North Carolina, is this issue's Guest Editor.

Signing the Declaration of Independence.

Cover art: "Isaiah" by Gustave Doré.

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An Optimist's View of the Entrepreneurship Explosion

by Raymond J. Keating

Advocates of economic freedom, rejoice. Despite some setbacks of late, the future is promising. True, the 1990s thus far have been plagued by a federal government run amok, including massive tax increases, heavier regulatory burdens, and rising government expenditures. Indeed, recent U.S. public-policy developments leave little to cheer about for proponents of smaller government and free markets.

For example, the top income tax rate on individuals has been increased from 28 percent to 39.6 percent. Factor in the Medicare income tax and the top rate exceeds 42 percent. The corporate tax rate rose by a percentage point, and back in 1987 the capital gains tax rate leaped by 40 percent, from 20 percent to 28 percent. Also, as noted in the chart on the next page, the estimated costs of federal regulations have been on the rise since 1988, according to economist Thomas Hopkins. And lastly, from 1989 to 1997, federal government spending growth will outpace inflation.

Indeed, things look rather grim—at least recently and probably for the short term going forward. However, the long term reveals a more heartening story. In my view, the long run promises enhanced economic opportunities for all. We are moving toward a society whose key features will be greater emphasis on individual liberty, higher levels of entrepreneurship, and less reliance upon and less tolerance of government action. The resulting economic dynamism and growth promise to astound.

Major long-term trends support the thesis that the entrepreneur-liberty society is coming upon us.

Increasing Entrepreneurship

Through a combination of economic survival and the enhancement of sound economic incentives, the level of entrepreneurship in this nation will rise considerably.

An entrepreneurial explosion, if you will, actually has been underway since the late 1960s. The charts on page 126 show a nation of growing entrepreneurship. And considering the many government obstacles and disincentives, this is a resilient and determined bunch of risk-takers. The "one-man" or "one-woman" business may best capture the economy's level of entrepreneurship. Between 1970 and 1995, the number of sole proprietorships filing tax returns jumped by 184 percent. Home-based businesses—full- or part-time—have exploded from almost 6 million in 1984 to nearly 40 million in 1995. Factor in the underground economy and entrepreneurship has expanded even further.

This entrepreneurial trend was given some help in the early 1980s by a few diminishing governmental costs—such as reductions in

Mr. Keating serves as chief economist for the Small Business Survival Foundation and is a principal with Capital Hill Research.

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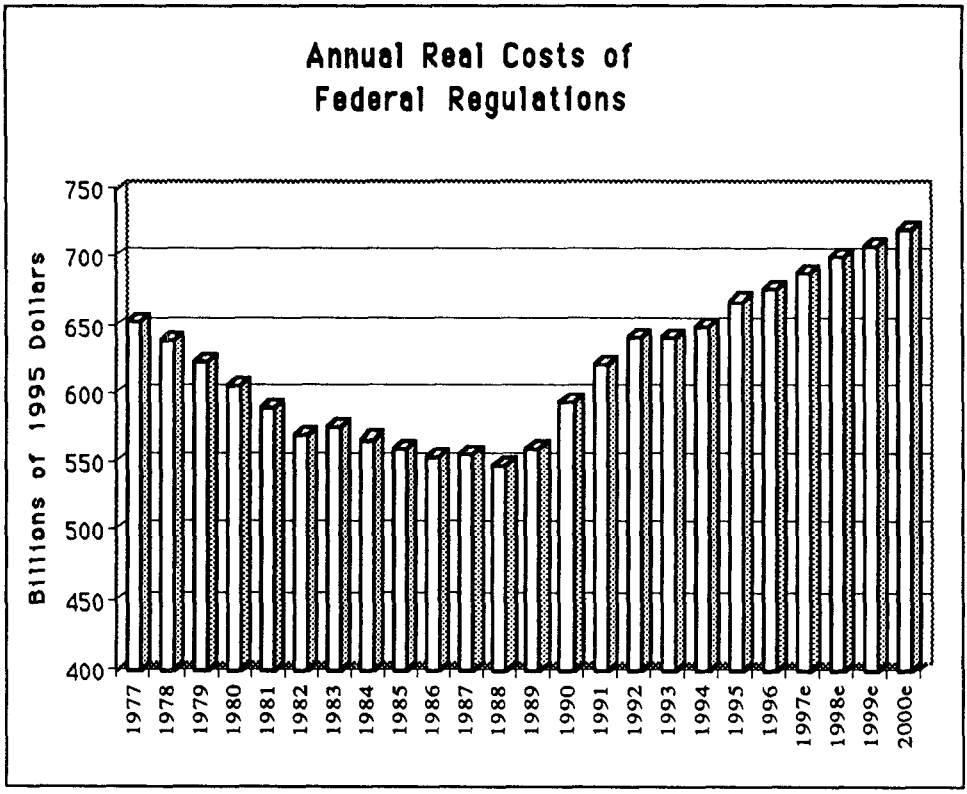

Source: Thomas Hopkins, "Regulatory Costs in Profile," Center for the Study of American Business, August 1996

marginal income and capital gains tax rates, as well as falling real federal regulatory costs. Fighting off high levels of inflation helped as well.

The relative level of entrepreneurship stagnated a bit, however, in the latter part of the 1980s and into the 1990s, due to the above-mentioned and other increases in governmental costs. Consider how more robust these entrepreneurial indicators would have been without the tax and regulatory hikes of recent years.

Government-imposed obstacles to entrepreneurship, though, will diminish in coming years, with pro-growth incentives being enhanced. Government will be forced to formulate policies that recognize the changing nature of the workforce—marked by increased mobility, diversity, and entrepreneurship. Indeed, rather than focusing on targeted big-business tax incentives or corporate welfare programs, for example, broad-based tax and regulatory cuts will be offered that unleash a torrent of entrepreneurial activity.

In addition, increased competition will continue to exert pressures on large companies to downsize and get leaner and meaner. To use economist Joseph Schumpeter's phrase, "creative destruction" will see that entire firms and industries are annihilated due to greater efficiencies and new products. This trend requires formerly reluctant entrepreneurs to take the plunge into the waters of economic risk-taking. In essence, the economy is becoming more and more decentralized.

Leaps in Technology

Great strides in technology help to drive this decentralizing economic trend—from the collapsing costs and expanding powers of the computer to leaps in telecommunications. These monumental changes place us firmly in an era of change and upheaval more tumultuous than the Industrial Revolution. Innovation, invention, and entrepreneurship in computers and telecommunications obviously

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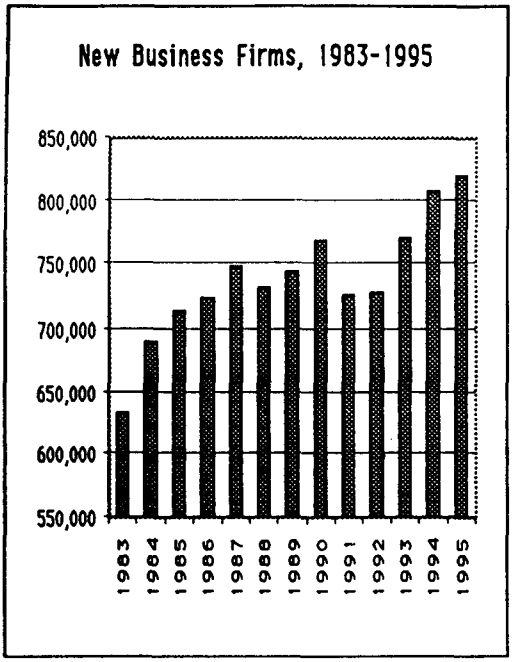
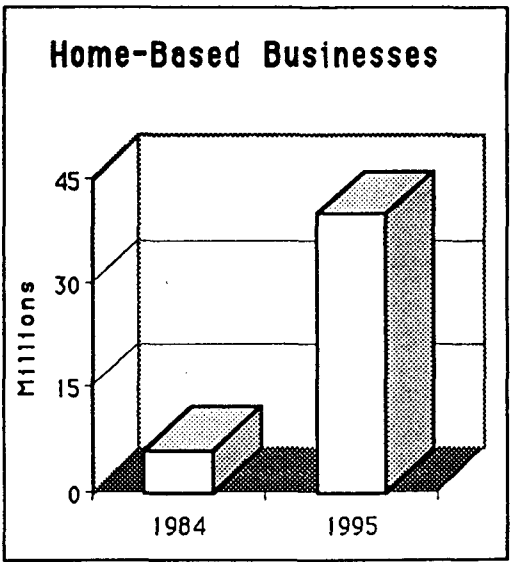


Data Source: U.S. Small Business Administration



Data Source: Small Business Survival Committee

translate into opportunities in other industries, generating new products, services, and efficiencies.

Technological advancements—as they always have done in the past—give another push to the formerly timid entrepreneur, as larger businesses take advantage of new technologies and shed employees. In turn, these down-scaled individuals move to create their own economic security through self-employment with the help of technological improvements as well.

Internationalization

As has often occurred throughout history, protectionism has recently reared its ugly head. Modern-day protectionists have tried to paint the protectionism-vs.-free trade encounter as a big-business-vs.-small-business standoff. The problem with such assertions is that over 95 percent of firms exporting from the United States have fewer than 500 employees; i.e., they are small or mid-size businesses.

In this case, the conventional wisdom is absolutely correct. In economic terms, the globe is getting smaller every day. International competition is at hand, as are countless international opportunities.

The Limits of Government Action

Government does not work very well. What free-market advocates have been saying for decades is beginning to resonate with the general populace.

Increasing levels of entrepreneurship undoubtedly have accelerated this learning curve. Wrestling with government regulations, paperwork, taxes, and bureaucrats, on a firsthand basis, crystallizes the woes and costs of government action—a shift from theory to the real world. Combine that with the visible harm caused by the welfare state in terms of destroyed lives and government dependency, and the education process regarding the limits of government action is moved along even further. This enhanced knowledge about the woes of government will be the major impetus for the transformation to the entrepreneur-liberty society.

Interestingly, the employees of small businesses already possess a strong understanding of the costs of government. One recent poll by the Small Business Survival Committee

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showed that 63 percent of small business employees saw the federal government as an "opponent" rather than a "partner," and 70 percent said that government regulations were too numerous and too costly.

Economic Dynamism

All of these trends point to increased economic dynamism. Entrepreneurs are creating new demands at a rapid pace. Current and future leaps in technology only quicken the entrepreneurial pace and allow for global dissemination.

In such an environment, the plodding hand of government will have to be lifted. Tax reduction, deregulation, privatization, and the demise of the welfare state will have to occur in order to compete in a high-tech, decentralized, mobile (in terms of both capital and labor), and global economy. And this trend will not only be required of the federal government, but of states and cities as well. New York, for example, must worry about much more than being competitive with New Jersey and Connecticut, but with Florida, Nevada, Mexico, Japan, China, Hong Kong, and Singapore.

Nations, states, and cities adopting policies that raise costs on the private sector have always been punished by the marketplace. However, such justice will be dispensed more swiftly and with greater severity in coming years and decades due to increasing mobility of labor and capital.

While big-government policies in recent years can understandably depress those of us trying to advance liberty and free markets, I remain an optimist about the future. Indeed, when I shake off the short-term doldrums and look at the big picture, I get downright jubilant over the economic opportunities and possibilities that will materialize in the twenty-first century. While government will always create mischief, keeping market forces on guard, state activism and tolerance for such action will diminish in the coming entrepreneur-liberty society. □

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The Case for Economic Freedom

by Benjamin A. Rogge

My economic philosophy is here offered with full knowledge that it is *not* generally accepted as the right one. On the contrary, my brand of economics has now become *Brand X,* the one that is never selected as the best by the housewife, the one that is said to be slow acting, the one that contains *no* miracle ingredient. It loses nine times out of ten in the popularity polls run on Election Day, and, in most elections, it doesn't even present a candidate.

I shall identify my brand of economics as that of economic freedom, and I shall define economic freedom as that set of economic arrangements that would exist in a society in which the government's only function would be to prevent one man from using force or fraud against another—including within this, of course, the task of national defense. So that there can be no misunderstanding here, let me say that this is pure, uncompromising laissez-faire economics. It is not the mixed economy; it is the unmixed economy.

I readily admit that I do not expect to see such an economy in my lifetime or in anyone's lifetime in the infinity of years ahead of us. I present it rather as the ideal we should strive for and should be disappointed in never fully attaining.

Where do we find the most powerful and persuasive case for economic freedom? I don't know; probably it hasn't been prepared as yet. Certainly it is unlikely that the case I present is the definitive one. However, it is the one that is persuasive with me, that leads me to my own deep commitment to the free market. I present it as grist for your own mill and not as the divinely inspired last word on the subject.

The Moral Case

You will note as I develop my case that I attach relatively little importance to the demonstrated efficiency of the free-market system in promoting economic growth, in raising levels of living. In fact, my central thesis is that *the most important part of the case for economic freedom is not its vaunted efficiency as a system for organizing resources, not its dramatic success in promoting economic growth, but rather its consistency with certain fundamental moral principles of life itself.*

I say, "the most important part of the case" for two reasons. First, the significance I attach to those moral principles would lead me to prefer the free enterprise system even if it

Dr. Benjamin A. Rogge (1920–1980) was dean and professor of economics at Wabash College in Indiana and long a trustee of FEE. This lecture, printed in The Freeman *in 1963, was delivered at several FEE seminars and on other occasions. It sets forth the Rogge ideal of the "unmixed" free economy.*

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were demonstrably less efficient than alternative systems, even if it were to produce a *slower* rate of economic growth than systems of central direction and control. Second, the great mass of the people of any country is never really going to understand the purely economic workings of *any* economic system, be it free enterprise or socialism. Hence, most people are going to judge an economic system by its consistency with their moral principles rather than by its purely scientific operating characteristics. If economic freedom survives in the years ahead, it will be only because a majority of the people accept its basic morality. The success of the system in bringing ever higher levels of living will be no more persuasive in the future than it has been in the past. Let me illustrate.

The doctrine of man held in general in nineteenth-century America argued that each man was ultimately responsible for what happened to him, for his own salvation, both in the here and now and in the hereafter. Thus, whether a man prospered or failed in economic life was each man's individual responsibility: Each man had a right to the rewards for success and, in the same sense, deserved the punishment that came with failure. It followed as well that it is explicitly immoral to use the power of government to take from one man to give to another, to legalize Robin Hood. This doctrine of man found its economic counterpart in the system of free enterprise and, hence, the system of free enterprise was accepted and respected by many who had no real understanding of its subtleties as a technique for organizing resource use.

As this doctrine of man was replaced by one which made of man a helpless victim of his subconscious and his environment—responsible for neither his successes nor his failures—the free enterprise system came to be rejected by many who still had no real understanding of its actual operating characteristics.

Basic Values Considered

Inasmuch as my own value systems and my own assumptions about human beings are so important to the case, I want to sketch them for you.

To begin with, the central value in my choice system is individual freedom. By freedom I mean exactly and only freedom from coercion by others. I do not mean the four freedoms of President Roosevelt, which are not freedoms at all, but only rhetorical devices to persuade people to give up some of their true freedom. In the Rogge system, each man must be free to do what is his duty as he defines it, so long as he does not use force against another.

Next, I believe each man to be ultimately responsible for what happens to him. True, he is influenced by his heredity, his environment, his subconscious, and by pure chance. But I insist that precisely what makes man man is his ability to rise above these influences, to change and determine his own destiny. If this be true, then it follows that each of us is terribly and inevitably and forever responsible for everything he does. The answer to the question, "Who's to blame?" is always, "*Mea culpa*, I am."

I believe as well that man is imperfect, now and forever. He is imperfect in his knowledge of the ultimate purpose of his life, imperfect in his choice of means to serve those purposes he does select, imperfect in the integrity with which he deals with himself and those around him, imperfect in his capacity to love his fellow man. If man is imperfect, then all of his constructs must be imperfect, and the choice is always among degrees and kinds of imperfection. The New Jerusalem is never going to be realized here on earth, and the man who insists that it is, is always lost unto freedom.

Moreover, man's imperfections are intensified as he acquires the power to coerce others; "power tends to corrupt and absolute power corrupts absolutely."

This completes the listing of my assumptions, and it should be clear that the list does not constitute a total philosophy of life. Most importantly, it does not define what I believe the free man's *duty* to be, or more specifically, what I believe my own duty to be and the source of the charge to me. However important these questions, I do not consider them relevant to the choice of an economic system.

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Here, then, are two sections of the case for economic freedom as I would construct it. The first section presents economic freedom as an ultimate end in itself and the second presents it as a means to the preservation of the noneconomic elements in total freedom.

Individual Freedom of Choice

The first section of the case is made in the stating of it, if one accepts the fundamental premise.

Major premise: Each man should be free to take whatever *action* he wishes, so long as he does not use force or fraud against another.

Minor premise: All economic behavior is "action" as identified above.

Conclusion: Each man should be free to take whatever action he wishes in his economic behavior, so long as he does not use force or fraud against another.

In other words, economic freedom is a part of total freedom; *if freedom is an end in itself, as our society has traditionally asserted it to be, then economic freedom is an end in itself, to be valued for itself alone and not just for its instrumental value in serving other goals.*

If this thesis is accepted, then there must always exist a tremendous presumption against each and every proposal for governmental limitation of economic freedom. What is wrong with a state system of compulsory social security? It denies to the individual his *freedom, his* right to choose what he will do with his own money resources. What is wrong with a governmentally enforced minimum wage? It denies to the employer and the employee their individual freedoms, their individual rights to enter into voluntary relationships not involving force or fraud. What is wrong with a tariff or an import quota? It denies to the individual consumer his right to buy what he wishes, wherever he wishes.

It is breathtaking to think what this simple approach would do to the apparatus of state control at all levels of government. Strike from the books all legislation that denies economic freedom to any individual, and three-fourths of all the activities now undertaken by government would be eliminated.

I am no dreamer of empty dreams, and I do not expect that the day will ever come when this principle of economic freedom as a part of total freedom will be fully accepted and applied. Yet I am convinced that unless this principle is given some standing, unless those who examine proposals for new regulation of the individual by government look on this loss of freedom as a "cost" of the proposed legislation, the chances of free enterprise surviving are small indeed. The would-be controller can always find reasons why it might seem expedient to control the individual; unless slowed down by some general feeling that it is immoral to do so, he will usually have his way.

Noneconomic Freedoms

So much for the first section of the case. Now for the second. The major premise here is the same, that is, the premise of the rightness of freedom. Here, though, the concern is with the noneconomic elements in total freedom—with freedom of speech, of religion, of the press, of personal behavior. My thesis is that these freedoms are not likely to be long preserved in a society that has denied economic freedom to its individual members.

Before developing this thesis, I wish to comment briefly on the importance of these noneconomic freedoms. I do so because we who are known as conservatives have often given too little attention to these freedoms or have even played a significant role in reducing them. The modern liberal is usually inconsistent in that he defends man's noneconomic freedoms, but is often quite indifferent to his economic freedom. The modern conservative is often inconsistent in that he defends man's economic freedom but is indifferent to his noneconomic freedoms. Why are there so few conservatives in the struggles over censorship, over denials of equality before the law for people of all races, over blue laws, and so on? Why do we let the modern liberals dominate an organization such as the American Civil Liberties Union? The general purposes of this organization are completely consistent with, even necessary to, the truly free society.

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Particularly in times of stress such as these, we must fight against the general pressure to curb the rights of individual human beings, even those whose ideas and actions we detest. Now is the time to remember the example of men such as David Ricardo, the London banker and economist of the classical free-market school in the first part of the last century. Born a Jew, married to a Quaker, he devoted some part of his energy and his fortune to eliminating the legal discrimination against Catholics in the England of his day.

It is precisely because I believe these non-economic freedoms to be so important that I believe economic freedom to be so important. The argument here could be drawn from the wisdom of the Bible and the statement that "where a man's treasure is, there will his heart be also." Give me control over a man's economic actions, and hence over his means of survival, and except for a few occasional heroes, I'll promise to deliver to you men who think and write and behave as I want them to.

The case is not difficult to make for the fully controlled economy, the true socialistic state. Milton Friedman, in his book *Capitalism and Freedom,* takes the case of a socialist society that has a sincere desire to preserve the freedom of the press. The first problem would be that there would be no private capital, no private fortunes that could be used to subsidize an antisocialist, procapitalist press. Hence, the socialist state would have to do it. However, the men and women undertaking the task would have to be released from the socialist labor pool and would have to be assured that they would never be discriminated against in employment opportunities in the socialist apparatus if they were to wish to change occupations later. Then these pro-capitalist members of the socialist society would have to go to other functionaries of the state to secure the buildings, the presses, the paper, the skilled and unskilled workmen, and all the other components of a working newspaper. Then they would face the problem of finding distribution outlets, either creating their own (a frightening task) or using the same ones used by the official socialist propaganda organs. Finally, where would they find readers? How many men and women would risk showing up at their state-controlled jobs carrying copies of the *Daily Capitalist*?

Ben Rogge

There are so many unlikely steps in this process that the assumption that true freedom of the press could be maintained in a socialist society is so unrealistic as to be ludicrous.

Partly Socialized

Of course, we are not facing as yet a fully socialized America, but only one in which there is significant government intervention in a still predominantly private enterprise economy. Do these interventions pose any threat to the noneconomic freedoms? I believe they do.

First of all, the total of coercive devices now available to any administration of either party at the national level is so great that true freedom to work actively against the current administration (whatever it might be) is seriously reduced. For example, farmers have become captives of the government in such a way that they are forced into political alignments that seriously reduce their ability to protest actions they do not approve.

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Second, the form of these interventions is such as to threaten seriously one of the real cornerstones of all freedoms—equality before the law. For example, farmers and trade union members are now encouraged and assisted in doing precisely that for which businessmen are sent to jail (i.e., acting collusively to manipulate prices). The blindfolded Goddess of Justice has been encouraged to peek, and she now says, with the jurists of the ancient regime, "First tell me who you are and then I'll tell you what your rights are." A society in which such gross inequalities before the law are encouraged in economic life is not likely to be one which preserves the principle of equality before the law generally.

We could go on to many specific illustrations. For example, the government uses its legislated monopoly to carry the mails as a means for imposing a censorship on what people send to each other in a completely voluntary relationship. A man and a woman who exchange obscene letters may not be making productive use of their time, but their correspondence is certainly no business of the government. Or to take an example from another country, Winston Churchill, as a critic of the Chamberlain government, was not permitted one minute of radio time on the government-owned and monopolized broadcasting system in the period from 1936 to the outbreak in 1939 of the war he was predicting. . . .

Solving the Problem of Economic Allocation

The "vulgar calculus of the marketplace," as its critics have described it, is still the most humane way man has yet found for solving those questions of economic allocation and division which are ubiquitous in human society. By what must seem fortunate coincidence, it is also the system most likely to produce the affluent society, to move mankind above an existence in which life is mean, nasty, brutish, and short. But, of course, this is *not* just coincidence. Under economic freedom, only man's destructive instincts are curbed by law. All of his creative instincts are released and freed to work those wonders of which free men are capable. In the controlled society only the creativity of the few at the top can be utilized, and much of this creativity must be expended in maintaining control and in fending off rivals. In the free society, the creativity of every man can be expressed—and surely by now we know that we cannot predict who will prove to be the most creative.

You may be puzzled, then, that I do not rest my case for economic freedom on its productive achievements; on its buildings, its houses, its automobiles, its bathtubs, its wonder drugs, its television sets, its sirloin steaks and green salads with Roquefort dressings. I neither feel within myself nor do I hear in the testimony of others any evidence that man's search for purpose, his longing for fulfillment, is in any significant way relieved by these accomplishments. I do not scorn these accomplishments nor do I worship them. Nor do I find in the lives of those who do worship them any evidence that they find ultimate peace and justification in their idols.

I rest my case rather on the consistency of the free market with man's essential nature, on the basic morality of its system of rewards and punishments, on the protection it gives to the integrity of the individual.

The free market cannot produce the perfect world, but it can create an environment in which each imperfect man may conduct his lifelong search for purpose in his own way, in which each day he may order his life according to his own imperfect vision of his destiny, suffering both the agonies of his errors and the sweet pleasure of his successes. This freedom is what it means to be a man; this is the Godhead, if you wish.

I give you, then, the free market, the expression of man's economic freedom and the guarantor of all his other freedoms. □

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A History Lesson for Free-Market Pessimists

Sometimes free-market advocates despair at the prospects for fundamental change. The pessimists ask, "Where are the examples of a people who have learned enough from the follies of socialism to completely reverse course and pursue freedom?"

Actually, there are more historical instances of such a turnaround than even most optimists know. One comes from the early days of my state of Michigan. It's a story replete with important principles, and one well worth retelling today.

To many Americans who looked at a map in 1837—the year Michigan became a state—the "land between the lakes" seemed destined for obscurity. Why should settlers heading west make a right turn to the north and put down roots in a territory known for long winters and nasty swamps?

To many Michiganians today, the fact that the state became an economic powerhouse is taken for granted. Few citizens even know that Michigan's early history produced a disastrous experiment in state government, followed by a new constitution that opened the door to a thriving free marketplace and the birth of world-class, private industries.

At age 26, Michigan's first governor and "Boy Wonder," Stevens T. Mason, was determined to get the state off to a fast start. To him that meant an activist government, which would build and own railroads and canals to promote economic growth. With his encouragement, Michigan's first constitution required the state to get into the highly controversial business of what was then commonly called "internal improvements."

"The spirit and enterprise which has arisen among our citizens, if fostered and encouraged by the State," said Mason, "cannot fail to lead to lasting prosperity." Mason denounced one bill in the legislature that would permit a private railroad as "extortion from the public." In that sentiment, he was joined by the influential *Detroit Daily Advertiser*, which denigrated the very thought of a "policy of surrendering that great work [of constructing canals and railroads] to the control of a private corporation." Michigan would indeed have a shot at proving that socialized economic development could be made to work. Mason and his allies were so confident state projects would flourish that they risked millions and put the state deeply into debt to make it all happen.

Among the first state projects was a canal that was to begin in Clinton Township near Detroit and move 216 miles west to Kalamazoo. This Clinton-Kalamazoo Canal began with high hopes and much fanfare. Governor Mason broke ground in Mt. Clemens in 1838 to celebrate the digging of the canal. Bands, parades, speeches, and a 13-gun salute commemorated the occasion. Then came one of the worst engineering fiascos in Michigan

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Mr. Reed would like to acknowledge the invaluable assistance of his colleague, economic historian Burton W. Folsom, in the preparation of this column.

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history: The canal was built only 20 feet wide and four feet deep—too shallow for heavy freight and too narrow for easy passing.

After five years, and only 16 miles of digging, the unfinished canal had cost the state over $350,000 and earned only $90.32 in tolls. State officials then abandoned the canal and focused on the railroads, but ended up losing even more money.

The Michigan Central was to go from Detroit west through Ann Arbor, Jackson, and Kalamazoo and on to St. Joseph on Lake Michigan. Poor construction and management drained most of its revenues each year. The Central's thin strap-iron rails were too fragile to carry heavy loads. Rather than switch to a better quality rail, the state chose to run regular heavy shipments over the inferior tracks and repair them frequently. Not only was this practice dangerous, it was more costly in the long run. Under state ownership, the Central didn't make it past Kalamazoo and did not earn enough to pay for needed repairs and new rails to go farther west.

A second railroad, the Michigan Southern, was also a stunning failure. In eight years of state management, tracks were laid only from Monroe to Hillsdale (halfway to its intended destination), at a cost of more than $1.2 million, with few customers to generate more than a trickle of revenue.

The state spent almost $4 million on the Clinton-Kalamazoo Canal, the Michigan Central, and the Michigan Southern. It spent another $70,000 surveying the Michigan Northern Railroad, from Port Huron to Lake Michigan, before abandoning it. It also spent $47,000 clearing the route for a canal and turnpike near Saginaw, but quit the project and left the materials to rot or be stolen by local residents. Legislators lobbied for these projects to go through their towns, resulting in circuitous routes that often made political but not economic sense.

In his final address as governor, Mason seemed to have learned an important lesson in government enterprise. Referring to the maze of failed projects, he spoke of "that fatal policy" for which "a corrective should be applied." A corrective measure eventually did come, but Mason never saw it. He died of scarlet fever at the age of 31 in January 1843.

Thomas Cooley, Michigan's most prominent lawyer in the 1800s, observed firsthand the way the state ran its canals and railroads: "[D]oubts soon matured into a settled conviction that the management of railroads was in its nature essentially a private business, and ought to be in the hands of individuals. By common consent it came to be considered that the State in entering upon these works had made a serious mistake."

Mason's successor, Governor William Woodbridge, favored a complete retreat of state government from economic development projects but the legislature balked. The next governor, John Barry, was of the same view but also fell short of gaining sufficient legislative support. Said Governor Barry, "Seeing now the errors of our policy and the evils resulting from a departure from correct principle, let us with the least possible delay correct the one by a return to the other." Meanwhile, the state's blunders multiplied.

It was left to Governor Alpheus Felch, in 1846, to shed the state of its failed experiments. During his administration, all of the state's railroads, canals, and other "internal improvements" were either abandoned entirely or sold to private enterprise, reaping the treasury about 55 cents on the dollar. The people of Michigan had learned important lessons about the nature and proper role of government.

By an overwhelming vote of the citizens, a new Michigan Constitution took effect in 1851. It emphatically took the state out of economic development and gave wide berth to free markets and entrepreneurship. Industries then arose in lumber, copper, and furniture, which would open the door to a thriving trade in carriages. Later, Michigan—where government had failed so miserably in the transportation business—would ironically become the world's leader in the private ownership and production of automobiles.

Yes, indeed, people can learn from their socialist mistakes. That should make optimists of all of us. □

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THE FREEMAN
IDEAS ON LIBERTY

The Role of Government: Promoting Development or Getting Out of the Way

by Doug Bandow

Of all the tasks assumed by government, none is more inappropriate than that of promoting economic development. It is rare to find an American politician who doesn't act as if the state were duty-bound to generate businesses, jobs, wages, and profits. This mistake is common enough in the industrialized West. It has proved to be even more pervasive—and harmful—throughout the Third World.

For decades development economists and foreign aid officials acted as though growth came from government. Indeed, some believed that promoting development was government's most important role in society. Thus, poor countries were to undertake *dirigiste* economic programs. And rich ones were to offer foreign aid programs.

Alas, the result has been a dismal failure: Many underdeveloped states have actually been growing poorer. Economic growth will come only when governments realize that their proper role is to stay out of the way, to stop impeding the development that would naturally occur but for state intervention.

Mr. Bandow, a monthly columnist for The Freeman, *is a Senior Fellow at the Cato Institute and the author and editor of several books, including* Perpetuating Poverty: The World Bank, the IMF, and the Developing World.

History of Development Theory

Extensive state economic intervention has long existed around the world, including the West, for political as well as philosophical reasons. Such policies have been especially evident throughout the twentieth century. In particular, the vast majority of Third World states traveled the socialist path as decolonization proceeded after World War II. Their decision was in part nationalistic; many new countries believed that true independence required indigenous control of economic resources. Statism also tended to benefit, both economically and politically, the elites that gained power after independence.

But there was also a genuine belief that the government had to guide the development process. Said Ghana's Kwame Nkrumah: "Only a socialist form of society can assure Ghana of a rapid rate of economic progress without destroying that social justice, that freedom and equality, which are a central feature of our traditional way of life."

A Western Import

This *dirigiste* philosophy was not, however, based on local tradition. Indeed, the very concept of development was an alien idea

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introduced by the West. Having helped ordain the goal of rapid industrialization, Western politicians and economists also played a major role in developing the statist strategies that many Third World nationalists were to call their own. Many Westerners have acted as the sirens in Homer's *Odyssey*, luring Third World economies, instead of wandering seafarers, upon the rocks. Perhaps the most important of these was Lenin. While Marx, ironically, viewed the colonial experience as a progressive force in the undeveloped world (in *The Communist Manifesto*, he lauded the potential of capitalism to transform such societies), it was Lenin, in *Imperialism: The Highest Stage of Capitalism*, who specifically applied socialist principles to underdeveloped states.

The British Fabian socialists argued for a more gradual collectivist transformation. According to Indian economist Jagdish Bhagwati, this approach exercised "a powerful impact through the large numbers of the Indian elite that were processed through the English educational institutions prior to Indian independence in 1947." Other developing countries—especially other former British colonies—looked to Fabian principles as they structured their economies.

Along with the philosophy came practical economic controls. The policies promoted by the London School of Economics eventually suffused the British Colonial Office. Many officials in London as well as colonial governors, writes P.T. Bauer, "took for granted the case for the most diverse forms of state economic intervention." Business licensing, trade restraints, agricultural marketing boards, and more were part of the administrative apparatus handed over to many new governments when countries gained independence.

Western development economists, who advised both underdeveloped states and Western aid agencies, generally leaned toward the so-called "structuralist school," which treated developing economies as inflexible and unresponsive to market forces. Leading proponents of this view included Gunnar Myrdal, Albert Hirschman, Hans Singer, Ragnar Nurkse, and Paul Rosenstein-Rodan.

Anti-Capitalist Bias

So pervasive was the anti-capitalist bias in terms of Third World development that even economists who recognized an important role for the private sector in advanced economies viewed developing states differently. Wrote Robert Heilbroner, "in the great transformation of the underdeveloped areas, the market mechanism is apt to play a much smaller role than in the comparable transformation of the West during the industrial revolution." Heilbroner saw the need for more than just active public-sector management: "Powerful, even ruthless, government may be needed."

The most fundamental principle of collectivist development dogma was the need for central planning. Development specialists like Myrdal advocated a ubiquitous public sector: "One of the most serious shortcomings of policy in the countries in which comprehensive planning has been undertaken is the failure to plan more ambitiously and on a larger scale."

Finally, even some Western economists who did not advocate full government economic planning nevertheless endorsed the sort of micromanagement that has been increasingly recognized as a failure in the industrialized nations. Expansive fiscal and monetary policies, for instance, were a Keynesian norm. Equally persistent was pressure on developing countries to increase taxes.

Revisionist Economic Thinking

These theories dominated international economic policy for about four decades following World War II. But reality finally intruded as it became evident that the different statist economic theories had been put to the test and found wanting. By 1989 history had clearly rendered its judgment on collectivism. The obvious lesson of this experience has received increasing acceptance: Without relatively open markets, little development will occur, irrespective of the efforts of governments in poor or rich nations.

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What Causes Development?

The West's dramatic escape from poverty has always been a good place to start in attempting to understand development. The rapid economic and social progress of Europe, during which people first rose out of the dismal poverty that characterized most of human history, was largely limited to a specific kind of regime—classical liberalism. The resulting systems generally allowed markets to operate, respected the rule of law, protected private property, and permitted competition. Historian Ralph Raico explains that the "European Miracle" developed because of greater market autonomy, which was possible only through "the inhibition of the predator-state." Obviously, individual national experiences varied, but the grand sweep of history presents powerful evidence that the West's development was not accidental. Observed economist David Osterfeld in his well-documented book *Prosperity Versus Planning*: "The likely relationship between the West's economic institutions and its economic growth and development cannot be ignored."

This experience has been repeated rather more quickly and notably in East Asia, where it has taken but a generation or two for desperately poor nations to develop among the world's most successful economies. (This is not to say that all these were exemplars of laissez faire. Rather, all broadly relied on market forces, despite varying degrees of government economic involvement.) What makes the East Asian experience so important is that it is more recent and reflected a conscious break with the reigning collectivist consensus, and succeeded so spectacularly.

Lessons for Developing Nations

What was true of Great Britain, the United States, Japan, and South Korea is also true of today's successful developing states. Perhaps the best broad-based study of economic policies over the last two decades is *Economic Freedom of the World: 1975-1995*, by economists James Gwartney, Robert Lawson, and Walter Block. They created an index of 17 component parts to measure economic freedom, as well as three alternative summary indexes. Ranked highest were Hong Kong, Singapore, the United States, and New Zealand. At the bottom came numerous Latin American and African countries. Most improved between 1975 and 1990 were Chile, Iceland, Jamaica, Malaysia, and Pakistan.

Although, as noted earlier, international comparisons are fraught with difficulty, two particularly important lessons emerge. First, economic policies matter. Report Gwartney, Lawson, and Block:

> The 14 countries that earned a summary rating grade of either A or B in 1993–1995, achieved an average annual growth rate in per capita real GDP of 2.4 percent during 1980–1994 and 2.6 percent during 1985-1994. In contrast, the average annual growth of per capita real GDP for the 27 countries with a summary rating of F− in 1993–1995 was *minus* 1.3 percent during 1980–1994 and *minus* 1.6 percent for the 1985–1994 period. Twenty-one of the 27 experienced *declines* in real per capita GDP during 1980–1994.

Obviously, the results for individual countries may be affected by many factors. But the overall result is compelling. Explain the authors: "No country with a persistently high economic freedom rating during the two decades failed to achieve a high level of income. In contrast, no country with a persistently low rating was able to achieve even middle income status."

Second, changes in economic policy affect national growth rates. According to the study, the 17 nations with the greatest increases in economic freedom enjoyed an average annual growth rate of 2.7 percent in per capita GDP from 1980 to 1990, and 3.1 percent from 1985 to 1994. All 17 grew, while 11 of the 16 nations with the largest drops in economic freedom suffered a decline in per capita GDP.

Similar are the results of the *1996 Index of Economic Freedom*, written by Heritage Foundation analysts Bryan Johnson and Thomas Sheehy. They explain that their analysis "demonstrates that economic freedom is the single most important factor in creating

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the conditions for economic growth and prosperity." Their data also demonstrate that countries which place the greatest reliance on open markets consistently have the highest growth rates.

Studies by other analysts and organizations yield the same general conclusion. Researchers at Cornell University and the Organization for Economic Cooperation and Development (OECD) have used a computable general equilibrium (CGE) economic model in an attempt to measure the impact of different policy measures. Market-oriented reforms in exchange-rate, fiscal, and monetary policies all improve economic growth rates.

A decade ago economists E. Dwight Phaup and Bradley Lewis surveyed a dozen "winners" (with average annual growth rates exceeding six percent) and a score of "losers" (average growth rates below 2.2 percent a year). The average annual growth rates were 7.7 percent and one percent, respectively. Phaup and Lewis concluded: "It would appear that whether LDCs are winners or losers is determined mainly by their domestic economic policies. Resource endowment, lucky circumstances, former colonial status, and other similar factors make little difference in the speed with which countries grow economically. The results of domestic policy choices pervade every economic area."

Phaup and Lewis found that growth rates correlated well with an index for overall economic distortion, such as price controls. Similar was the role of trade. Countries that relied on exports grew far faster than those which practiced import substitution. The two economists stated: "From this experience it can be concluded that exports cause GDP growth, rather than the reverse, even though exports are normally considered exogenous."

They found that rough indexes regarding "investment climate" yielded similar results. Government spending, in contrast, was adversely correlated with economic growth. Also apparently related to economic growth, though the data did not yield a statistically significant result, were tax revenues. Explained Phaup and Lewis: "There was a difference in the ratio of income taxes to GDP; the average for the slow growing nations was higher. Such a result is consistent with the hypothesis that high and progressive income tax rates muffle incentives and slow productivity growth."

Policy Differences

In 1996 Mancur Olson, Jr., of the Center for Institutional Reform and the Informal Sector at the University of Maryland (College Park), came to much the same conclusion. He reported that such factors as access to knowledge and capital cannot explain the relative income differences between nations. "The only remaining plausible explanation is that the great differences in the wealth of nations are mainly due to differences in the quality of their institutions and economic policies," he explained. He found that poorer nations with the best economic policies consistently grow the fastest.

Phaup and Lewis relied in part on a detailed World Bank study, published as part of the 1983 *World Development Report*. The Bank assessed the relative economic distortions in 31 primarily developing nations and found that countries with the least interference with the marketplace had annual growth rates twice as fast as those of nations with the most inefficient policies. The more market-oriented countries also enjoyed far greater domestic savings, additional output per unit of investment, and increases in both agricultural and manufacturing output. The Bank estimated that inefficient intervention—such as inflationary exchange-rate, fiscal, and monetary policies; price distortions; bad investments; and expansive regulation—could cut annual GDP growth by as much as two percent.

The Bank has focused particular attention on protectionism. In 1987 the institution devoted much of its annual *World Development Report* to trade. It concluded: "The economic performance of the outward-oriented economies has been broadly superior to that of the inward-oriented economies in almost all respects." The World Bank has similarly reported on the impact of agriculture policies. Here, too, it found that ineffi-

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cient government actions, macroeconomic as well as sectoral, tended to discourage food output, while market-oriented reforms increased agricultural production.

America's Agency for International Development (U.S. AID) has reached similar conclusions. According to U.S. AID: "Recent academic and policy experience has shown a linkage between international trade policy and overall economic progress." Particularly important, in its view, were open trade policies—more outwardly oriented countries grew by upwards of four times as fast as more protectionist states. U.S. AID also pointed to the friendliness of the investment climate to domestic and foreign business alike.

Specific Experiences

These sort of general assessments are reinforced by the results of narrower studies of different regions and nations. For example, David Osterfeld reviewed the economic impact of a range of variables: corruption, food, foreign aid, migration, multinationals, population, and resources. His conclusion was that development occurred most quickly in an "enabling environment" in which the rule of law was stable, property was protected, political power was decentralized, and most of the economy was private. The primary obstacle to sustained economic development, he explained, "is an environment that penalizes individual initiative, is hostile to private ownership, discourages saving and investment, and severely restricts the operation of the free market."

Numerous international examples support this thesis. The East Asian economic powerhouses of today—Hong Kong, Japan, Singapore, South Korea, Taiwan—were much poorer than such Latin American countries as Argentina after World War II. Of the many differences between them, the most important is the economic road taken. Latin America firmly embraced the *dirigiste* model. East Asia chose various forms of capitalism. The nations of Africa, the poorest on the globe, followed Latin America over the abyss of collectivist development strategies.

The city-states of Hong Kong and Singapore possess little other than open economic markets. They have developed nonetheless. Resource-rich countries like Mexico and Zaire have, in contrast, struggled economically for decades. States as varied as Argentina, Brazil, India, and Tanzania failed to prosper so long as they emphasized state-led development plans; all four have since adjusted their policies, leading to greater economic progress.

Lessons from Africa

The World Bank has devoted particular attention to Africa. As far back as its 1981 report, *Accelerated Development in Sub-Saharan Africa: An Agenda for ACTION*, the Bank concluded that other "factors impeding African economic growth have been exacerbated by domestic policy inadequacies." Thirteen years later, in its *Adjustment in Africa: Reforms, Results, and the Road Ahead*, the Bank went much further. Far from being merely an additional problem, "the public sector lies at the core of the stagnation and decline in growth in Africa." In short, governments were attempting to do far too much, and were doing it badly. Similar have been the results of other research by several Bank economists.

Studies of Brazil, Chile, Pakistan, Philippines, and Turkey in the 1960s concluded that trade restrictions alone were costing these countries between four and ten percent of their GDP. Countries that improved their policies—Brazil, Colombia, and South Korea—significantly improved their employment and output. Sri Lanka changed governments, and economic policies, in 1977; the resulting liberalization had dramatic economic results. A 1993 Bank review of the adjustment experience of 18 developing countries, *Boom, Crisis, and Adjustment*, found that good policies, especially freer trade and macroeconomic stability, were important for economic success. Obviously, every country is the beneficiary or victim of unique circumstances, which makes any one pairing suspect, but the overall picture—South Korea versus North Korea, China versus Taiwan, Asia versus Africa—presents a consistent picture, and is

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particularly telling when it involves divided cultural groups like Germany, Korea, and China.

Conclusion

Every nation's economic environment is made up of a complex aggregation of individual laws and regulations. All governments, including those in the industrialized West, do dumb things—sometimes out of ignorance, sometimes in response to interest group pressure, and sometimes in an attempt to achieve noneconomic ends. The basic question is whether economic stupidity is the exception or the rule—whether, in essence, the government acts as if its role is to manipulate the economy.

What is needed in America and around the world is not more efficient government—reinvented by "progressive" politicians with slightly greater respect than their predecessors for markets. The real answer is less government. That is, when it comes to development, the state's role in society is to provide the legal framework and physical security for private economic activity, not to act as an agent of economic change itself.

Foreign governments that want to help poorer nations should step out of the way of private development rather than subsidize public enterprises. The history of foreign aid is one of failure—Western assistance for regimes that were simultaneously authoritarian and collectivist ended up making their people poorer rather than richer. In fact, abundant outside aid long inhibited the commitment to reform of even more responsible governments. By masking the pain of economic failure, development assistance allows borrowers to delay market reforms, worsening the underlying problem. The point is, it is necessity, brought on by collectivist and populist economics, that almost always drives the reform process.

Instead of offering new aid programs, industrialized states should reform their own economies, encouraging faster global growth, and open their markets to Third World products. The latter step is particularly important, since poor nations need to participate in the international economy to grow. The benefit of free access to Western markets would vastly exceed the value of foreign aid now or likely to be offered.

The crisis of international poverty well illustrates the fact that restricting government to its proper role is a matter of economic as well as philosophical necessity. The people of poor nations have learned through painful experience that government cannot create growth. Perhaps U.S. politicians will eventually comprehend that lesson too. □

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The Source of Rights

by Frank Chodorov

The basic axiom of socialism, in all its forms, is that might is right. And that means that power is all there is to morality. If I am bigger and stronger than you and you have no way of defending yourself, then it is right if I thrash you; the fact that I did thrash you is proof that I had the right to do so. On the other hand, if you can intimidate me with a gun, then right returns to your side. All of which comes to mere nonsense. And a social order based on the socialistic axiom—which makes the government the final judge of all morality—is a nonsensical society. It is a society in which the highest value is the acquisition of power—as exemplified in a Hitler or a Stalin—and the fate of those who cannot acquire it is subservience as a condition of existence.

The senselessness of the socialistic axiom is shown by the fact that there would be no society, and therefore no government, if there were no individuals. The human being is the unit of all social institutions; without a man there cannot be a crowd. Hence, we are compelled to look to the individual to find an axiom on which to build a nonsocialistic moral code. What does he tell us about himself?

The late Frank Chodorov edited The Freeman *for a time, was associate editor of* Human Events, *and the author of several books, including* The Income Tax *(New York: Devin Adair, 1954), from which this selection has been reprinted by permission.*

This essay shows why a socialistic society must decline because it fails to respect private property.

Desire to Live

In the first place, he tells us that above all things he wants to live. He tells us this even when he first comes into the world and lets out a yell. Because of that primordial desire, he maintains, he has a right to live. Certainly, nobody else can establish a valid claim to his life, and for that reason he traces his own title to an authority that transcends all men, to God. That title makes sense.

When the individual says he has a valid title to life, he means that all that is he, is his own: his body, his mind, his faculties. Maybe there is something else in life, such as a soul, but without going into that realm, he is willing to settle on what he knows about himself—his consciousness. All that is "I" is "mine." That implies, of course, that all that is "you" is "yours"—for, every "you" is an "I." Rights work both ways.

But, while just wanting to live gives the individual a title to life, it is an empty title unless he can acquire the things that make life liveable, beginning with food, raiment, and shelter. These things do not come to you because you want them; they come as the result of putting labor to raw materials. You have to give something of yourself—your brawn or your brain—to make the necessary things available. Even wild berries have to be picked before they can be eaten. But the energy you put out to make the necessary things is part of you; it *is* you. *Therefore, when you cause these things to exist, your title to*

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yourself, your labor, is extended to the things. You have a right to them simply because you have a right to life.

Source of Government

That is the moral basis of the right of property. "I own it because I made it" is a title that proves itself. The recognition of that title is implied in the statement that "I *make* so many dollars a week." That is literally true.

But what do you mean when you say you own the thing you produced? Say it is a bushel of wheat. You produced it to satisfy your desire for bread. You can grind the wheat into flour, bake the loaf of bread, eat it, or share it with your family or a friend. Or you can give part of the wheat to the miller in payment for his labor; the part you give him, in the form of wages, is his because he gave you labor in exchange. Or you sell half the bushel of wheat for money, which you exchange for butter to go with the bread. Or you put the money in the bank so that you can have something else later on, when you want it.

In other words, your ownership entitles you to use your judgment as to what you will do with the product of your labor—consume it, give it away, sell it, save it. Freedom of disposition is the substance of property rights.

Freedom of Disposition

Interference with this freedom of disposition is, in the final analysis, interference with your right to life. At least, that is your reaction to such interference, for you describe such interference with a word that expresses a deep emotion: You call it "robbery." What's more, if you find that this robbery persists, if you are regularly deprived of the fruits of your labor, you lose interest in laboring. The only reason you work is to satisfy your desires; and if experience shows that despite your efforts your desires go unsatisfied, you become stingy about laboring. You become a "poor" producer.

Suppose the freedom of disposition is taken away from you entirely. That is, you become a slave; you have no right of property. Whatever you produce is taken by somebody else; and though a good part of it is returned to you, in the way of sustenance, medical care, housing, you cannot under the law dispose of your output; if you try to, you become the legal "robber." Your concern in production wanes and you develop an attitude toward laboring that is called a "slave" psychology. Your interest in yourself also drops because you sense that without the right of property you are not much different from the other living things in the barn. The clergyman may tell you you are a man, with a soul; but you sense that without the right of property you are somewhat less of a man than the one who can dispose of your production as he wills. If you are a human, how human are you?

It is silly, then, to prate of human rights being superior to property rights, because the right of ownership is traceable to the right to life, which is certainly inherent in the human being. Property rights are in fact human rights.

A society built around the denial of this fact is, or must become, a slave society—although the socialists describe it differently. It is a society in which some produce and others dispose of their output. The laborer is not stimulated by the prospect of satisfying his desires but by fear of punishment. When his ownership is not interfered with, when he works for himself, he is inclined to develop his faculties of production because he has unlimited desires. He works for food, as a matter of necessity; but when he has a sufficiency of food, he begins to think of fancy dishes, a tablecloth, and music with his meals. There is no end of desires the human being can conjure up, and will work for, provided he feels reasonably sure that his labor will not be in vain. Contrariwise, when the law deprives him of the incentive of enjoyment, he will work only as necessity compels him. What use is there in putting out more effort?

Therefore, the general production of a socialistic society must decline to the point of mere subsistence.

Decline of Society

The economic decline of a society without property rights is followed by the loss of

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other values. It is only when we have a sufficiency of necessaries that we give thought to nonmaterial things, to what is called culture. On the other hand, we find we can do without books, or even moving pictures, when existence is at stake. Even more than that, we who have no right to own certainly have no right to give, and charity becomes an empty word; in a socialistic order, no one need give thought to an unfortunate neighbor because it is the duty of the government, the only property owner, to take care of him; it might even become a crime to give a "bum" a dime. When the denial of the right of the individual is negated through the denial of ownership, the sense of personal pride, which distinguishes man from beast, must decay from disuse. . . .

Whatever else socialism is, or is claimed to be, its first tenet is the denial of private property. All brands of socialism, and there are many, are agreed that property rights must be vested in the political establishment. None of the schemes identified with this ideology, such as the nationalization of industry, or socialized medicine, or the abolition of free choice, or the planned economy, can become operative if the individual's claim to his property is recognized by the government. □

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THE FREEMAN
IDEAS ON LIBERTY

Confession of a Compliant Taxpayer

by Dwight R. Lee

I'm afraid of the IRS, so I always pay at least as much, and probably more, than I owe in federal taxes. I confess this with apologies to my fellow taxpayers, particularly those who don't do as I do.

You have all heard, and most of you believe, that honest taxpayers are victimized by tax evaders. In an April 1995 *Money* magazine article, for example, Teresa Tritch tells us, "All told, individuals and corporations are expected to shortchange their fellow taxpayers by an estimated $150 billion this filing season. That adds $1,932 to the average tax bill of every honest taxpaying U.S. household." This sounds plausible enough at first glance, but it is based on two naive assumptions about how government operates: first, that the government needs some fixed amount of money and so if it receives less from one taxpayer it compensates by taking more from another; second, that we are better off when the government spends more of our money. Neither assumption is supported by our experience with government, or by the logic of the political process.

If the government required only a fixed amount of money each year, we could hope to reduce the federal deficit by increasing tax revenues. Unfortunately, the federal government spends more than a dollar for every dollar it gets. The budget deficit fluctuates from year to year, but over recent decades it has tended to increase as federal revenues increase. So if some of my fellow taxpayers pay more taxes than required, my taxes are not reduced. Quite the opposite. The government would respond to the additional money by committing to new spending that will grow faster than anticipated, with yet more money and larger deficits being required, and I end up with a larger tax burden. Conversely, if some taxpayers underpay, my taxes will be lower, not higher, than they otherwise would be. And government spending will also be less.

But if I benefit from additional government spending, I might be worse off even if my taxes are lower because others underpay. What I gain in lower taxes might be more than offset in lost government benefits. But do I, or does anyone else, benefit from additional government spending?

This may seem like a silly question. Someone always benefits from a transfer, a subsidy, or a service when the government spends more money. But those benefits always have to be paid for by someone. So the important question is, are the benefits from additional government spending worth the costs? When the government spends more money, are the additional benefits I receive from expansions in my favorite programs worth as much as I have to pay for expansions in the programs

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of others? For most Americans the answer is no.

Up to a point, federal spending for defense, law and order, and other necessities is worth more than it costs. But the logic of the political process suggests that we are well beyond that point. Consider that political decisions are far more responsive to relatively small groups, each organized around a common concern, than to the general public. For example, a water diversion project concentrates large benefits on relatively few farmers who are strongly motivated to form a coalition supporting the project. The cost of the project is spread so widely over the general public that few taxpayers know the cost, and almost no taxpayer sees any advantage in organizing opposition to the project. Politicians know that a vote favoring the project will be deeply appreciated by the few getting the benefits and ignored by the many paying the bill. Thus, government projects are funded beyond the point where they are worth what they cost. For example, in California water that costs taxpayers over $200 per acre-foot to provide is sold to farmers for $3.50 per acre-foot so they can grow rice in the desert.

Wasteful Government Spending

Farmers are not alone in using the political process to capture benefits worth less than they cost taxpayers. Indeed, the fiscal relationship between local governments and the federal government causes everyone to support wasteful government spending. About 66 percent of our tax dollars now go to the federal government (up from about 33 percent in 1929), with most of these dollars being returned to states and localities through federal spending on a variety of programs, projects, and transfers. Taxpayers everywhere want their political representatives to retrieve as many of their federal tax dollars as possible, and they are not particular about how those dollars are spent. They will accept almost any project, no matter how little it is worth relative to cost, since the benefits accrue primarily to them and the cost is paid primarily by others. Their tax burden will not be increased noticeably if more federal spending is secured locally, nor will their tax burden be reduced noticeably if it is not. No matter how much the public may oppose wasting tax dollars in general, each local constituency prefers that more be wasted in their district rather than in others.

In essence, taxpayers are caught in a perverse fiscal game in which it is individually beneficial to demand federal spending that is collectively harmful. The only possible winners are federal functionaries to whom taxpayers must pay tribute for the privilege of plundering one another. The government has become, in the words of the nineteenth-century French philosopher Frederic Bastiat, "that great fictitious entity by which everyone seeks to live at the expense of everyone else."

The only way to reduce the waste in this game of fiscal folly is by reducing the tax money pouring into the federal coffers. Except for a few who receive more benefits from their favorite government programs than they pay to support the programs of others, we are better off when the federal government has fewer dollars to spend. So most of us benefit when others don't pay their "fair share."

I want to emphasize that I am not advocating tax evasion. But we would be well served if law-enforcement resources were shifted away from the IRS and directed against those whose criminal behavior victimizes law-abiding citizens. Let's do more to punish those who rob, assault, and murder, and less to punish those who want to keep more of the fruits of their labor. □

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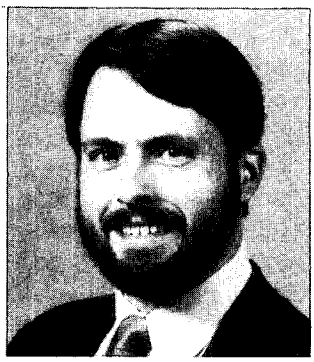

An Agenda for Limited Government

After an election that confirmed the Washington status quo, the nation's capital has been filled with professions of warmth and promises to cooperate. One is entitled to be skeptical of the politicians' protestations of goodwill toward each other. But assuming they are sincere, I'd like to modestly suggest a new nonpartisan theme: The era of big government is over.

A majority of those who voted last November told pollsters that they wanted the federal government to do less. Which means that our elected leaders, in contrast, have a lot to do.

• Cut taxes across the board. People say that they want general rate reductions, not targeted cuts that allow the government to engage in social engineering. Obviously, the usual demagogues would oppose any measure which offered any benefit to anyone who was not poor. But these class warriors must be confronted, and the way to do so is to make the moral case for tax reduction. Yes, lowering rates would stimulate economic growth, but that is merely a side-benefit. The more fundamental point is that people are paying far too much in taxes.

This argument needs to be repeated again and again. It is not right, morally right, to deprive people of over 40 percent of their incomes. They are entitled to keep more of their earnings. The best and fairest cut would be across the board. How to respond to the charge that the rich would get more back? People would save more *only if they are paying more in the first place*. Anyway, it is time that public officials laud people who become successful rather than demonize the successful. Washington needs to hold a serious public debate on today's outrageous levels of taxation.

• Really cut spending. Americans who live outside of Washington may believe that every year Congress and the President seriously debate the budget. Voters read about programs being cut, spending being reduced, and safety nets being slashed. Yet, in reality, the politicians are usually arguing about whether government should grow by 3.5 percent or 4.5 percent during the coming year. Outlays increase even as legislators proclaim that they are making cuts, since reductions are measured against a mythical "baseline budget" that is always rising. And individual programs virtually never disappear.

So in this new era of good feelings, let's actually eliminate programs, making it difficult for them to grow back. And when politicians talk about making cuts, let them really make cuts.

Of course, some legislators are skittish about a budget confrontation out of fear of another government shutdown. But federal appropriations are traditionally divided among 13 bills that, when approved on time, allow Congress to make tough decisions without creating a public relations fiasco. If both

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parties are genuinely committed to balancing the budget, then surely they can agree to kill such nonessential programs as foreign aid (which, runs the old saw, takes money from poor people in rich countries and gives it to rich people in poor countries), the National Endowment for the Arts (which pays people to slather their bodies in chocolate and stuff vegetables into various body orifices), business subsidy programs (if anyone in America doesn't need welfare, it is big business), and so on.

- Slaughter sacred cows. There has always been an element of truth to left-wing attacks on proposals to "balance the budget on the backs of the poor." Politicians from both parties are more likely to cut traditional welfare than subsidies for groups with greater political clout. Thus, the budget overflows with transfers to the well-to-do. The Coast Guard inspects yachts for free. The National Park System is frequented almost entirely by middle- and upper-class Americans. Whether the National Endowment for the Arts funds opera or pornography, it benefits primarily the rich. A plethora of grant, loan, insurance, and guarantee programs enhance corporate profits.

- Unplug the third rail of American politics. By the year 2013, at the latest, Social Security will be running in the red. With its faux trust fund filled with Treasury IOUs (the money has been borrowed to fund today's deficit), the system will be ready for Chapter 11.

All of the proposals so far advanced by bipartisan panels—changing the cost-of-living adjustment, fiddling with benefit formulas and retirement ages, hiking taxes (of course!), and allowing the government to invest tax revenues in the stock market—are inadequate to "save" Social Security. Leaders committed to really leading would press for full privatization, as quickly as possible. Only when people have control over their own retirement futures will both the federal budget and individual liberty be safe.

- Defund partisan lobbies. If there is anything that people pledged to bipartisanship should be able to agree on, it is that the government should not underwrite political organizations. Over the years some conservative groups have collected grants, many for foreign junkets in the name of promoting democracy abroad. But Uncle Sam has been especially generous to labor unions, pro-abortion groups, left-wing organizers, and liberal senior citizen activists. Such groups have a perfect right to be politically involved, but they are not entitled to collect taxpayer dollars. Although such funds are theoretically provided for independent social services, money is fungible and federal grants strengthen such organizations immeasurably.

Congress should also cut cash collected with the de facto assistance of government. The Supreme Court has ruled that labor unions may not use mandatory dues for political purposes, but neither the administration nor Congress has enforced the Beck decision. It is, however, the law of the land. Enforcement is also a matter of basic morality. Organized labor has no right to loot members for campaign contributions, especially those used on behalf of candidates that many workers oppose.

- Move from welfare reform to welfare repeal. Officials are talking about revisiting the changes approved only last year, but the basic problem is government assistance programs themselves. Only private charity can meet each recipient's particular needs and speak to the whole person. Unfortunately, however, the always aggressive and imperialistic public sector continues to squeeze out private efforts.

Thus, we need not only to promote charity, but to shrink welfare. Many different kinds of private programs already exist. Their number would explode if government no longer sopped up private funds, assuaged people's natural desire to help those in need, and relieved beneficiaries of responsibility for their own actions.

- Educate voters. For years, big government congressional majorities held hearings to make the case for ever new and ever more expensive federal programs. In this new cooperative age, Congress should use the process for the opposite purpose. It is time, for instance, to confront attacks on supposed "cuts" in education funding. Congress should

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hold hearings on the limited impact of spending on quality; the factors that make schools successful; why private and parochial schools do so much better than public ones; and how centralization of education has reduced parental involvement and student achievement.

Similar efforts could be undertaken on the environment, crime, and the like. One hearing is not enough; it should be an ongoing process to publicize arguments, credential scholars, and highlight relevant research. In short, it is an important part of the war of ideas, which continues, despite the widespread belief that classical liberalism has triumphed.

Bipartisanship has a nice ring to it, but those of us living outside of the Beltway will benefit only if elected officials work together to shrink government and protect liberty. It's time that they showed us they really believe the era of big government is over. □

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THE FREEMAN
IDEAS ON LIBERTY

Dying for a Pizza

by Ralph R. Reiland

It started as more than 50 people were being killed in Los Angeles by rioters who didn't agree with the verdict in the Rodney King case. That same night, while the rest of us were watching the mayhem on television, Carl Truss of Schenley Farms in Pittsburgh's Hill District called Pizza Hut for a pie.

The store said it was too dangerous that night to deliver to Truss's neighborhood, a predominantly African-American area. Now, after investigating the case for over four years, Charles Morrison, Director of the Human Relations Commission of Pittsburgh, says it's a case of illegal redlining: "We've determined there is probable cause to believe that it is more likely than not that a discriminatory act occurred here. We found that they did deliver to areas that had greater incidence of crime yet were not perceived to be 'black areas.'"

Morrison is referring to the Oakland section of the city—home to the University of Pittsburgh, Chatham College, Carlow College, and Carnegie-Mellon University—where Pizza Hut takes its risks to deliver to a large student market. That's a judgment call by a store manager, but most Pittsburghers, I'd guess, would see Oakland as safer than the Hill District on the night of the Rodney King riots.

"We don't want any business to be exposed to putting their drivers in harm's way," says Morrison, "but there has to be a basis for denying service. You can't just say, 'We hear it's bad there.'"

With the way the Human Relations Commission operates, the burden of proof is on the store, a case of being guilty until proven innocent. The Commission is saying that pizza managers, on top of juggling teenage workers and other workplace headaches, must also be proficient in crime statistics by street and neighborhood in order to stay out of court. "There could be a loss history," explains Morrison, "such as, 'When we go to ABC street, we get robbed.'"

The year after Truss didn't get his pizza, Jay Weiss, a 34-year-old man who worked for Chubby's Pizza in Pittsburgh's North Side, was killed by two teenagers while delivering a pizza. As the driver was dying, the boys sat on a curb and ate the pizza.

A few minutes after Morrison was interviewed on the Jim Quinn radio talk show in Pittsburgh, "Dan," a former Pizza Hut driver, called the show to explain how it looked from the inside. "We had drivers robbed every day," he said. "In East Liberty, we had the same driver robbed three times in one day. They usually robbed us with a gun—they know we're not allowed to carry a gun, or more than $20. They'd rob us just for the pizza. If we'd drive to Schenley Farms, they hid in the bushes across Herron Avenue to rob us. Drivers would quit after a couple days."

Morrison explained to Quinn's listeners that the Human Relations Commission in this case was going after "a large company, not a

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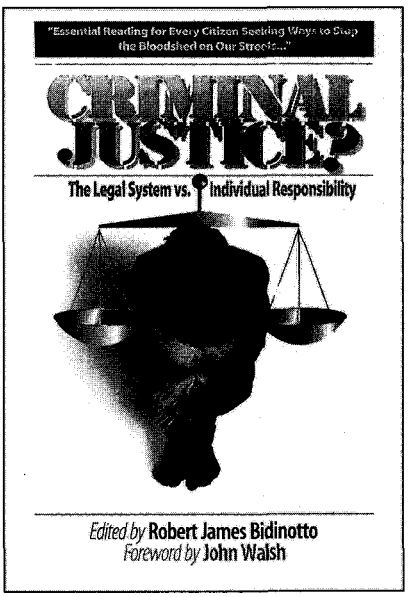
mom-and-pop store," as if it makes any difference if someone's son or daughter is shot while delivering pizza for a rich multinational corporation or Chubby's.

As it now stands, one government agency can fine a restaurant owner for not being careful enough if a young kitchen worker simply picks up a grinder part and places it in an automatic dishwasher, while on the same day another government agency can fine the same owner if he's overly careful about sending the same employee out on an unsafe delivery.

When cases like Pizza Hut's wind up in court, the business can be fined for discrimination for not sending drivers to certain areas or, conversely, fined for sending drivers to unsafe areas. At the Blue Coat Inn in Dover, Delaware, a waitress sued her employer for "inadequate security" after she was abducted from her car in the restaurant's parking lot, then raped and robbed. The Inn routinely provided escorts for waitresses to their cars, and on this night a busboy accompanied the waitress to her car. After the busboy returned to the restaurant, the criminal gained entry to the car through the waitress' open window as she sat in the car counting her tips. The Delaware Supreme Court upheld the $600,000 verdict against the restaurant.

As I'm writing this, the local news is reporting that a bus passenger was shot behind the ear in Homewood, a poor African-American neighborhood. During the morning rush hour, in broad daylight, the bus was caught in a crossfire from two pistols and a shotgun.

What's needed here is an attack on crime, not an attack on businesses that are fed up with dodging bullets. Rather than telling pizza shops how to run their businesses, the first task of Pittsburgh's public officials should be to worry about their own job performance. That begins with making the streets safe enough so that people—black or white—aren't afraid to ride a bus or deliver a pizza. □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THE FREEMAN
IDEAS ON LIBERTY

Cause and Effect: Crime and Poverty

by Roger M. Clites

It is often asserted that poverty causes crime. I suggest that crime causes poverty.

Obviously crime victims are made worse off when they are burglarized or mugged. But there are many other people who are made worse off indirectly by crime.

A high crime rate will drive businesses out of a neighborhood. This eliminates both availability of products and services and a source of jobs. Further, those who do stay find it necessary to charge higher prices to offset losses due to thievery and higher costs of both security measures and insurance premiums—if insurance is available at all.

Property values are driven down by a smaller demand because of the greater difficulty potential purchasers have in obtaining mortgage loans.

The loss of productive activity by those who live by preying on others reduces the output of the area in which they live. Thus, crime injures economically both direct victims and others in the crime-ridden neighborhood.

Just as all people are better off in a society where a large portion of people are more educated and more productive, all people in a crime-infested area become worse off than they otherwise would be.

It is not just others who are adversely affected by criminals. Perpetrators themselves lose ground economically. A large portion of people charged with criminal activity are relatively young. Their criminal behavior harms them in several ways. They may spend time incarcerated when they could have been gaining employment experience. Their criminal record may hamper them in obtaining future employment. They develop attitudes and habits that are detrimental to participation in the workplace. For these reasons many criminals condemn themselves to poverty.

Crime is a major cause of poverty. □

Professor Clites teaches at Tusculum College in Tennessee.

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THE FREEMAN
IDEAS ON LIBERTY

We Have Yet to Learn

by Gregg MacDonald

The ideas of man, expressed in one way or another, have come down to us over and over again for the past 50 centuries. As we approach the twenty-first century, it is almost impossible to come up with an original thought. "What a great thing Adam had," quipped Mark Twain. "When he said something good, he knew nobody else had said it before." One would think we would have learned something after 5,000 years, but it just hasn't happened. As the nineteenth-century philosopher Georg Hegel observed, "What experience and history teach us is that people and governments never have learned anything from history, or acted on principles deduced from it."

Hegel was right. People and governments never learn from history, and go on repeating the same mistakes.

If we had learned anything at all from the past, we would know that every economy must sooner or later rely upon some sort of profit-and-loss system to spur groups or individuals to productivity. Slavery, police supervision, or ideological enthusiasm have always turned out to be too unproductive, or too expensive—not to mention too immoral.

Prosperity depends on the incentive of profit, but more than that, it depends on freedom. Those who failed to learn this from the past should certainly learn it from the present by looking at the collapse of communism in Russia, the failure of communism 90 miles off our coast in Cuba, or the tragic legacy of communism in China.

Mr. MacDonald, a trustee of The Foundation for Economic Education, resides in Issaquah, Washington.

What We Can Learn from Rome

When we think of the Roman Empire (and it seems that everybody today tries to draw an analogy between the decline of America and the fall of the Roman Empire), we think of Roman citizens as being free, even though there were a great many slaves in the Empire. Roman politicians lusted after citizens' votes and support just as politicians do today. Commerce and business thrived in this "free" economy. Farmers, shoemakers, estate agents, bakers, manufacturers, builders, innkeepers, and a host of other tradesmen and professionals flourished. In the early centuries of the Empire, just as in the early days of the United States, the farmers were the backbone of the nation, providing stability and food as well as strong, free men to defend Rome and fight its battles.

Under the Emperor Diocletian, however, Rome succumbed to outright socialism. Government spending led to inflation and increasing poverty. In A.D. 301, Diocletian issued an Edictum *de pretiis,* which set maximum prices and wages for all important goods and services. (In today's world such measures are simply called wage and price controls.) The results were disastrous and set the stage for the fall of the Empire and the beginning of serfdom in the Middle Ages.

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Balancing the Budget

It is difficult to deceive other people without their finding out. It is well nigh impossible for politicians to deceive the people who have been beguiled and disappointed innumerable times. Yet, some federal politicos do not easily break the habit. They want us to believe that the annual budget deficits are declining although the national debt continues to soar. According to today's financial press (January 13, 1997), the federal deficit for this fiscal year is given at $107 billion, and the federal debt at $5.31 trillion, $324 billion higher than last year.

Such deceptions when practiced by bankers and businessmen undoubtedly would be felonious and punishable with fines and imprisonment. In politics, deceit and hypocrisy often are the royal road to success on which political statistics are assembled and propagated.

The politicians who practice this deception are using trust funds, in particular, Social Security revenue, to finance some of the deficits. The small budget deficits they are gloating about merely are the deficits which are not fully covered by trust fund surpluses. The federal government spends more than ever before, but uses trust funds that are set aside for certain purposes. In fiscal year 1997, the Social Security Trust Fund is expected to have surpluses of about $70 billion which the government will spend, leaving only more IOUs. Altogether the federal government has spent some $550 billion of Social Security money. The spenders use these funds to help subsidize agriculture, health and human services, housing and urban development, labor, and numerous other federal activities. But can Social Security be expected to help finance these outlays indefinitely?

The growing federal indebtedness to trust funds is tantamount to growing trust fund surpluses which the intended beneficiaries are itching to spend. Pointing at the surpluses, they are clamoring for ever greater outlays on their behalf which tends to increase federal spending and deficits. The years of trust fund surpluses are followed by years of deficits, which in time raise the specter of trust fund bankruptcy and call for more tax boosts. The chronic fears of Social Security bankruptcy call for ever higher Social Security taxes.

The new angle in federal financing should not surprise us; all administrations since the Great Society of the 1960s readily turned against future generations in order to bolster their own image and popularity. The Balanced Budget Amendment, introduced as S.J.Res.1, which is a big issue of the new Congress, even would sanction the use of trust fund revenue for any spending purpose. Section 7 reads: "Total receipts shall include all receipts of the United States government except those derived from borrowing. Total outlays shall include all outlays of the United States government except for those for repayment of debt principal." In short, the amendment would permit the spenders to incur trillion-dollar

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debts to the trust funds, call their budgets "balanced," and ignore the soaring national debt.

This observation of growing federal indebtedness to trust funds must not be interpreted as a defense of the Social Security system in any form. It constitutes the very cornerstone of the American welfare system on which all other programs rest. It also reveals the poisonous handicraft of politics which seizes income and wealth by majority vote. The Social Security surplus consists of payments by workers recently and presently employed and taxed for the benefit of retirees, most of whom did not contribute a penny to the surplus. Having received many multiples of what they paid in, some aged never tire of demanding their cost-of-living adjustments. In the halls of politics, their voices drown out all calls for reform and warnings of ultimate disaster. Social Security and Medicare always are "off the cutting table."

You can judge the craftiness of a politician by his or her behavior at the cutting table. You can judge the moral fiber of a political party by the way it vies with others for the votes of the elderly. If Social Security as the oldest, most expensive, and most inequitable transfer system is untouchable, all others following in its footsteps can be expected to stubbornly resist attempts to place them on the table. They merely need to repeat the Social Security rationale and join the transfer coalition to repel the would-be reformers.

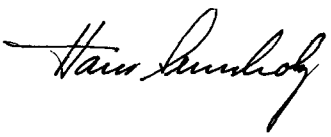
To restore a commonplace truth and realism to the transfer system and enhance the prospects for balanced budgets, we must reject all transfer schemes. They breed social conflict and gnaw at the root of democratic institutions. They have made youth the primary beast of burden and victim of transfer; the most monstrous burdens, Social Security and Medicare, have been placed squarely on the shoulders of young people.

Genuine budget control necessitates an early abolition of all political transfer programs. There are several roads that lead back to a free society. One would first lead to genuine privatization of all welfare functions; all social services would be transferred from politicians and bureaucrats to private producers. The privatization of federal health and human services alone would balance the budget.

Another road would lead to a temporary freeze of all transfer expenditures at the present level. Economic expansion together with price inflation would raise tax revenues which, in just a few years, would catch up with the frozen expenditures. The temporary freeze would have to be followed by a permanent freeze of both revenues and expenditures which would shrink the transfer system at the annual rates of inflation. In just a decade or two the inflation would rescind all but a few traces of the welfare state.

On yet another road to fiscal responsibility and stability the welfare system would be made to respect the religious and moral principles of conscientious objectors and allow them to withdraw. It also would grant relief to the primary victims of the system, to young people, and permit them to choose between joining the system or remaining free, independent, and self-reliant. A system which allows its victims to go free is no longer a transfer system.

Despite all the noise about the federal deficits and the Balanced Budget Amendment, there is no indication that the American public and the Congress are serious about the importance of balancing the budget. Public pressures for ever more transfer benefits signal the coming of ever larger deficits.



Hans F. Sennholz

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Reflections on the Ills of Public Assistance

Edited by Hans F. Sennholz

From the beginning of history sincere reformers as well as demagogues have sought to abolish or at least to alleviate poverty through state action. In most cases their proposed remedies have only served to make the problem worse. The most frequent and popular of these proposed remedies has been the simple one of seizing from the rich to give to the poor. This remedy has taken a thousand different forms, but they all come down to this. The wealth is to be "shared," to be "redistributed," to be "equalized." In fact, in the minds of many reformers it is not poverty that is the chief evil but inequality.

In the last generation there has been enacted in almost every major country of the world a whole sackful of "social" measures, most of them having the ostensible purpose of "helping the poor" in one respect or another. These include not only direct relief, but unemployment benefits, old-age benefits, sickness benefits, food subsidies, rent subsidies, farm subsidies, veterans' subsidies—in seemingly endless profusion. Many people receive not only one but many of these subsidies. The programs often overlap and duplicate each other.

What is their net effect? All of them must be paid for by that chronically Forgotten Man, the taxpayer. The mounting burden of taxation not only undermines individual incentives to increased work and earnings, but in a score of ways discourages capital accumulation and distorts, unbalances, and shrinks production. Total real wealth and income is made smaller than it would otherwise be. On net balance there is more poverty rather than less.

Up From Poverty includes a compelling introduction by Hans F. Sennholz and powerful essays by Henry Hazlitt, Leonard E. Read, Clarence B. Carson, Lawrence W. Reed, Bertel M. Sparks, and others.

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Diocletian put extensive public works into operation to boost employment, and food was given to the poor at little or no cost. The government brought nearly all major industries and guilds—unions—under explicit control. Paul-Louis, in his *Ancient Rome at Work,* tells us that in "every large city, the state became a powerful employer . . . standing head and shoulders above the private industrialists, who were in any case crushed by taxation." Will Durant noted that businessmen "predicted ruin, but Diocletian explained that the barbarians were at the gate, and that individual liberty had to be shelved until collective liberty could be made secure."

Diocletian's expanding, expensive, and corrupt bureaucracy proved to be too much to handle. To support all this government—the army, courts, public works, and welfare—taxes rose so high that men lost the incentive to work or earn. Lawyers kept finding ways to evade taxes, but other lawyers formulated laws to prevent evasion. To escape the tax men, thousands of Romans fled over the frontiers to find refuge with the barbarians Diocletian said were at the walls of Rome. (It makes one wonder why the barbarians wanted to get in.)

In an effort to stem the tide of fleeing citizens, and to facilitate regulations and taxation, the government issued decrees binding the farmers to their fields and the workers to their shops until all their debts and taxes had been paid in full. And, as mentioned, serfdom entered its initial stage.

The Modern Welfare State

Technologically, the modern world, and the Western world especially, are no more like ancient Rome than the moon is like the sun. But, technology and science aside, the civilization of Rome in the time of Diocletian vividly reminds us how much our own government parallels the Roman government that existed then. The welfare state, the huge bureaucracy to run it, stifling government regulations, and exorbitant taxes to pay for it all—is there that much difference between our present-day American government and the regime that prevailed in Diocletian's Rome? And, again, technology and science aside, ideas and thoughts seem to have changed little.

There can be no lasting, healthy economy without freedom. When we are told by government bureaucrats just what we are allowed to do on our property, told whom we must employ, and where we must send our children for an education—can we honestly say we are free?

The average American worker pays government forty-seven percent out of each dollar he or she earns. This money is taken by the IRS, FICA, local and state taxes, property taxes, sales taxes, and on and on. Many people don't realize this. How can you say you are free if half of everything you earn is taken away from you by government?

A healthy economy, in order to grow and spread and benefit the most people without taking away from others, needs freedom to expand. What we have in the United States today is an economy that has evolved through government control to satisfy self-indulgence and greed. Nor is it an economy embedded in freedom. Somerset Maugham warned us that "If any nation values anything more than freedom, it will lose its freedom; and the irony of it is that if it is comfort or money that it values more, it will lose that too."

The people of the United States at the end of the twentieth century have certainly placed a high value on comfort and money. Entitlements, golden parachutes, and rich government pensions are just a few of the programs and schemes that are relentlessly driving our economy onto dangerously thin ice. If enormous bureaucracies on the local, state, and federal levels are the price we are willing to pay for government contracts, welfare, and entitlements in order to retain comfort, then can a sick economy be far behind? And is the loss of freedom even closer? □

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THE FREEMAN
IDEAS ON LIBERTY

On Trial Again

by Meredith Kapushion

For the last three years, beginning at age fifteen, I have taught myself philosophy straight from the great works of Western thought, and have formally and informally studied economics. Fortunately, my background shielded me from some highly volatile rhetoric being espoused at the state university where I took a philosophy course last year.

The course, entitled "Classics in Ethics," was taught by a professor who made no attempt to disguise his liberal views from the class. Normally, I dismissed his personal opinions as secondary and inconsequential to the course, but one particular claim he repeatedly made prompted me to respond. The professor took it upon himself to add yet another accusation to Michael Milken's list of indictments. He accused Milken of being, at best, a simple hedonist, greed-driven to seek only short-term, selfish pleasures. I could not let this charge go unquestioned. I resolved to create a moral defense of Milken using the professor's own tools of the ethical systems of Aristotle, Thomas Hobbes, Immanuel Kant, and John Stuart Mill. I chose these four philosophers because each is unique in his perception of mankind. This diversity of opinion and viewpoint creates the most challenging and complete rubric of testing morality.

Milken revitalized Wall Street by introducing new methods of investment through high-yield (junk) bonds. In his own words, he and colleagues were "matching capital to entrepreneurs who could use it effectively. We were creating investments that money managers needed in volatile markets."[1] Milken and his associates at Drexel Burnham Lambert succeeded in raising over ten billion dollars in capital for various companies. Yet for all of Milken's successes, he is still thought of as an immoral cutthroat. His actions have been subject to much debate and speculation, but one interesting test has yet to be applied.

The Pleas

Michael Milken pled guilty to five counts of equity technicalities and one count of tax fraud, but to many people he was also guilty of insider trading, fraud, and generally cheating people out of money. These allegations, however, do not even begin to correlate with the six crimes for which he pled guilty. The charges, which at best are technicalities, include ugly words like "fraud," "conspiracy," and "aiding and abetting." The first charge is a general conspiracy charge that Milken planned or thought "to engage in a series of unlawful security transactions." (It was my understanding that only Big Brother ever prosecuted someone for their thoughts.) The next charge involves tax fraud, but the most obvious thing to note is that the taxes are not Milken's. The charge relates to Ivan Boesky's false 13-d statement. The next two charges are also based upon Boesky's testimony. Milken's transgressions were to suggest that Boesky buy MCA stock to hide that Golden Nugget was selling and to assure him no loss in a sale to Drexel. Both of these actions are common

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in business and attention was only called to them long after the fact. These first four charges are all based on the charge that the ownership of stock was not properly documented in a stock-parking agreement. However, none of these charges created any injury to MCA, Boesky, the federal government, or anyone else involved in the transactions. The fifth charge is equally harmless. Milken pled guilty for failing to disclose in written form an agreed-upon adjustment in transaction prices between Drexel and a client. The final "crime" is that Milken helped a client reduce his income tax liability by selling him two investments and then buying them back at a lower price.[2] Yet even here, the real economic loss that the client incurred was picked up as a gain by Drexel, and all profits were certainly taxed by Uncle Sam, somewhere along the line.

Now that his six "crimes" have been examined, his everyday actions must be considered. The four philosophers provide an excellent opportunity to evaluate the actions of an entrepreneur and businessman. Aristotle, Thomas Hobbes, Immanuel Kant, and John Stuart Mill take very different approaches to morality. They differ in their perceptions of man, concepts of virtue, and ideas of how to apply ethics. These three characteristics define how each philosopher might well judge and weigh Milken's actions. From their teachings and perceptions, Milken will receive a new trial.

Aristotle

Aristotle deemed that actions were moral if they promoted actualization, or, to be more specific, the total actualization of potentiality in all being. He defined virtues as either intellectual, maintaining prudence and wisdom; or moral, the control of emotions and desires in obedience to reason.[3] In this way, man could achieve his fullest potential and be considered moral. Did Milken's actions fulfill the ideal of total actualization, yet still remain virtuous? Milken's job at Drexel Burnham Lambert was to provide financial advice to clients and to find profitable investment opportunities. His investment strategies bailed out companies in need of capital and provided enormous profits for investors. Ultimately, his work helped to better the economy as a whole, thus fulfilling Aristotle's need for total actualization. Milken fulfilled Aristotle's two requirements for virtue, by engaging in intellectually challenging activities and succeeding in opening an entirely new arena of opportunity and investment in his field. The proof of his ability in prudence and wisdom is quite evident in the numbers he generated in profits. Milken's wealth was the result of a job well done.

Proponents of Aristotle will be quick to point out that Aristotle was very specific concerning wealth and its use only as an intermediate end, useful merely as a means to something else. Though it could be argued, let us assume for argument's sake that Aristotle was correct in his assessment of money. Then we must look to how Milken has used his money. Milken has always lived relatively modestly, refraining from ostentatious spending and extreme indulgence in luxuries.[4] Milken obviously did not use his wealth for simple hedonistic pleasures, but he did use his wealth to achieve other ends. Milken used his income to establish the Milken Family Foundation, which contributes millions of dollars every year to fund education and charities, to underwrite cancer research, and to invest in promising companies. It appears that any allegations of pure greed are groundless from the evidence of Milken's lifestyle. Milken has satisfied Aristotle's criteria and has passed this test.

Thomas Hobbes

Milken's actions fall nicely into Thomas Hobbes's conceptions of morality. Hobbes believed the ethical man acted in enlightened self-interest. None would disagree that Milken acted out of self-interest, but some might disagree as to whether his actions were "enlightened." This enlightenment demands that Milken's actions not have been centered in pure selfishness, but also consist of a desire to seek higher goals. Economically, it is simple to prove that Milken's actions benefited everyone else either directly or indirectly, but

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to prove his case morally we must look elsewhere.

Milken sees himself as a "social scientist," one who looks at "what is happening in society, what society needs."[5] Milken's investments in telecommunications, Latin America, and education certainly demonstrate his ability to anticipate what society needs. Companies such as Time Warner, MCI, and Turner Broadcasting were able to become highly successful businesses thanks to over $5 billion in financing from Milken. He believes that talented and trained people are the key to the future, and the best investment for the future lies in education. Milken fulfills the role of Hobbes's enlightened, self-interested man perfectly. Milken invested both for himself and for the world in which he lived.

Immanuel Kant

Immanuel Kant developed one of the strictest forms of determining moral actions. Moral maxims or rules, Kant claimed, must fit within the categorical imperative. One should "act only on that maxim through which you can at the same time will that it should become universal law."[6] In other words, you should act in a way that you would want everyone else to act. For example, theft would be immoral because you would not want everyone else to steal as well. After the maxim or rule of behavior is determined, it must then be put to the tests of universality and consistency. Only Milken himself truly knows which moral maxims he employed; however, from his actions a maxim can be hypothesized.

This maxim is that one should have a strong work ethic and pursue profit through fair means. None can disagree that Michael Milken had a strong work ethic; it is clearly evidenced in his high profits. And his lack of harm, intentional or otherwise, meets the demand for fairness. It would be logical to apply this maxim universally, because there is nothing inherently wrong with it. Profit is the result of payments exceeding costs in a legal transaction. It is the successful by-product of free trade, and through market transactions makes people better off. One could also consistently "will" or desire that everyone have a strong work ethic, as the end result would create no internal logical flaws, nor would it create undesirable ends. Ultimately this maxim would only benefit all, by improving efficiency, allocation of resources, and the quality of life, even for those not earning high profits.

J. S. Mill

John Stuart Mill's theory of utilitarianism is the final challenge that Milken faces. Utilitarianism defines the moral rightness or wrongness of an act in terms of the balance of good or bad consequences. Mill held that actions are right in proportion as they tend to promote happiness, wrong as they tend to produce the reverse of happiness. Milken's actions must be evaluated both in terms of consequences and in happiness created, as the results prove to be different.

There is a common myth that wealth is generated only at the expense of others. Wealth actually creates more wealth through voluntary trade. It provides an incentive that encourages new ideas and economic growth. Economic expansion only occurs when entrepreneurs like Milken take chances in order to gain profits. From a purely economic standpoint, Milken's actions had no net negative results. He managed to forge an entirely new way of thinking about investment. Leveraging helped to free up badly needed capital that allowed companies to expand and improve faster and more efficiently.

If Milken never actually harmed anyone coercively or fraudulently, what made him the object of so many negative emotions from the public? Many claimed he was greedy and undeserving of his wealth. In a literal definition of utility, Milken fails miserably in the eyes of the masses. However, a closer look at Mill's theories will prove that in this case, the majority truly had no right to be unhappy with Milken.

The public was guilty of misjudging Milken for many reasons. In addition to being ignorant of Milken's overall contributions to the economy, people were misled by crusaders against the "decade of greed." The government assaulted Milken and others in order to

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displace public anger over the savings and loan failures, and in the case of at least one special prosecutor, to gain political advantage. Likewise, the corporate establishment and old-liners at Wall Street wanted Milken out of the picture in order to seize his profits for their own companies and eliminate "the outsider."[7] Media hype only increased the animosity toward Milken, and so out of unjustifiable emotions, Milken inadvertently created unhappiness.

Misplaced emotion can hardly be a justification for Milken to be considered immoral. Mill believed that in some cases majority opinion does not constitute utilitarianism. "Society . . . practices a social tyranny more formidable than many kinds of political oppression. There needs protection against the tyranny of the prevailing opinion and feeling; against the tendency of society to impose, by other means than civil penalties, its own ideas and practices as rules of conduct on those who dissent from them."[8] How unfortunate that there was no protection for Michael Milken, because by objective utilitarian standards he certainly provided for the greater good of society.

Michael Milken may have pled guilty to six charges, but those so-called crimes hardly account for the enormous amount of success he has had. Milken could not escape the clutches of politics, but higher judges would have found him innocent. Aristotle, Thomas Hobbes, Immanuel Kant, and John Stuart Mill represent the bastions of Western thought, and their philosophies support Milken's morality.

It seems that my professor was too quick to judge, and wrong in his assessment. Milken should not be thought of as a hedonist or criminal, but rather regarded as a hero. His ideas and innovations created an entirely new direction for investment to grow. Michael Milken may have made enormous profits during the years he worked for Drexel Burnham Lambert, but those numbers pale in comparison to the amount of wealth he generated for everyone else. The only crime Michael Milken is truly guilty of is doing his job and doing it well. □

1. Michael Milken, "My Story," *Forbes*, March 16, 1992, p. 4.
2. Daniel Fischel, *Payback* (New York: HarperCollins, 1995), pp. 163–164.
3. Aristotle, *On Man in the Universe* (New York: Random House, 1971), p. 87.
4. Fischel, p. 159.
5. Milken, p. 20.
6. Immanuel Kant, *Groundwork of the Metaphysics of Morals*, p. 6.
7. Fischel, p. 300.
8. John Stuart Mill, *On Liberty*, p. 3.

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THE FREEMAN
IDEAS ON LIBERTY

The End of the World as We Know It?

by William V. Bandoch, Jr. and Walter Block

In today's world there exists a widespread belief that new technology is creating massive unemployment and rendering human labor obsolete. This is not true.

Ideally, having machines and computers do all our "dirty work" would make our lives much better. After all, isn't this why our primitive ancestors created the wheel? Some genius said one day, "Hey, why should I carry this heavy burden on my back, when it can be pushed in a wheeled cart?" Then his friend hit him over the head with a club and berated him for wanting to create unemployment.

According to Henry Hazlitt, the belief that new machines on net balance create unemployment is one of the biggest fallacies in economic thought. To illustrate his point, Hazlitt cites the effects of cotton-spinning machinery on cotton spinners and weavers in eighteenth-century England. When Arkwright invented his cotton-spinning machinery in 1760, it was estimated that there were 5,200 spinners using spinning wheels, and 2,700 weavers, for a total of 7,900 persons working in the production of cotton textiles. There was strong opposition to the invention on the grounds that it would bring massive unemployment to the cotton textile industry. Yet in 1787, the number of persons working as spinners and weavers of cotton had risen from 7,900 to 320,000, an increase of 4,400 percent.[1]

Ever since man discovered fire, the purpose of technological advancement has been to make life easier for everyone. If we accepted the assessment of technophobes, we'd be in quite a predicament. Why contact someone via the telephone when we could hire somebody to hand-deliver our message? Why send cargo from Philadelphia to Boston by railroad when we could hire an enormous number of men to carry it on their backs? The anti-technology argument seems ridiculous when you look at it this way. It is in the nature of those who take pride in their work to try to increase the results they can achieve in a given number of hours. If those who fear technology accepted their own rhetoric, they would have to dismiss all progress and ingenuity not only as useless, but also vicious.[2]

What really happens when technological improvements and labor-saving machinery are introduced? Hazlitt provides an interesting scenario. A clothing manufacturer buys a machine that makes men's and women's overcoats for half as much labor as was previously used. Thus, half his labor force is dropped. While this may look like a clear loss of employment, one must remember that the machine itself required labor to make it. Here, as one offset, are jobs that would not otherwise have existed. In the long run, the manufacturer will have increased his profits

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with the use of the machine. Hazlitt then states,

> The manufacturer must use these extra profits in at least one of three ways, and possibly he will use part of them in all three: (1) he will use the extra profits to expand his operations by buying more machines to make his coats; or (2) he will invest the extra profits in some other industry; or (3) he will spend the extra profits on increasing his own consumption. Whichever of these three courses he takes, he will increase employment.[3]

The consumers who buy the coats also save money. The machine has reduced the price of the coat, allowing the consumer to spend that saved money on other goods, thus providing increased employment in other areas. The bottom line is that machines bring an increase in production and an increase in the standard of living.

George Terborgh claims that there is one indisputable fact about technology: It creates new products, including services, and new methods of production. But will these great technological advances that help make our lives easier create massive unemployment? Terborgh doesn't believe so. Instead, the impact technological progress has on employment is twofold: It creates jobs, but it also destroys them. For example,

> . . . the thousands of new products that pour forth annually from research and development laboratories, and the hundreds of new industries they create, obviously generate a large demand for labor. On the other hand, older products and industries are displaced by their competition, with a consequent loss of jobs.[4]

The same is true with new methods of production. The technophobes are only looking at one side of the coin. They see only the people who are being unemployed with each technological advance. They fail to see the new jobs created in other areas.

Does the gain in employment from technological advances exceed the loss? In some cases, there is no doubt that it does. But we must look at the long-run picture and the opportunities that arise from new technology. New product technology is a net creator of jobs. These innovations do not merely replace the old products they dislodge from the market, but instead develop new and expanded markets of their own. The most successful product innovations, like the telephone, automobile, and television leave their predecessor products or services so far behind in terms of both output and employment that the comparison is almost impossible.[5]

Technology does have its supporters—sometimes unexpected ones. Testifying before Congress many years ago, labor union leader Walter Reuther spoke of how technological advances can put many desirable goals within our reach: greatly improved standards of living (including increased leisure for every family), the relative elimination of poverty in our land, rapid progress in providing the fullest educational opportunity to every child, and providing the means to make the best health care available to all.

Unfortunately, technophobes fail to see this potential. What worries them the most is the one thing that should make them the happiest. Technology will continue to reduce our sweat and toil, much as the wheel enabled our ancestors to save time and energy.

There will always be those who insist on looking only at the short-term effects, while ignoring the long-run rewards. New and better ways of doing things have the potential to render hard, tiresome labor obsolete. If this happens, we will all be able to engage in meaningful work and play that enable us to make the best use of our natural abilities. Of course, none of this discussion would be necessary if someone had just kicked the wheels off that caveman's cart!

1. Henry Hazlitt, *Economics in One Lesson* (New York: Crown Publishers, Inc., 1979), p. 50.
2. *Ibid.*, p. 54.
3. *Ibid.*, pp. 55–56.
4. George Terborgh, "Automation Hysteria and Employment Effects of Technological Progress," in *Automation, Alienation, and Anomie*, ed. Simon Marcson (New York: Harper and Row Publishers, 1970), p. 362.
5. *Ibid.*, pp. 363, 364.

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THE FREEMAN
IDEAS ON LIBERTY

Albert Jay Nock: A Gifted Pen for Radical Individualism

by Jim Powell

American individualism had virtually died out by the time Mark Twain was buried in 1910. "Progressive" intellectuals promoted collectivism. "Progressive" jurists like Oliver Wendell Holmes hammered constitutional restraints as an inconvenient obstacle to expanding government power, supposedly the cure for every social problem. "Progressive" education theorist John Dewey belittled "mere learning" and claimed that "social reconstruction" was the mission of schooling. "Progressive" hero Theodore Roosevelt glorified imperial conquest. "Progressive" President Woodrow Wilson maneuvered America into a European war, jailed dissidents, and pushed through the income tax which persists to this day. Great individualists such as Thomas Paine and Thomas Jefferson were ridiculed, if they were remembered at all.

Yet author Albert Jay Nock dared declare that collectivism was evil. He denounced the use of force to impose one's will on others. He opposed military intervention in the affairs of other nations. He believed America should stay out of foreign wars that inevitably subvert liberty. He insisted individuals have the unalienable right to pursue happiness as long as they don't hurt anybody. Murray N. Rothbard called Nock "an authentic American radical."

Even though Nock didn't contribute to mass-circulation magazines and his books had a limited sale, he quietly affirmed individualism as a living creed. He became a name to reckon with as editor and writer for *The Freeman* (1920–1924). The great antiwar journalist Oswald Garrison Villard called it "the best-written weekly yet to appear in the United States, a publication which thoroughly merited a permanent place in American journalism." The influential editor and author H. L. Mencken declared: "What publicist among us, indeed, writes better than Nock? His [*Freeman*] editorials . . . set a mark that no other man of his trade has ever quite managed to reach. They were well informed and sometimes even learned, but there was never the slightest trace of pedantry in them. In even the least of them there were sound writing and solid structure. Nock has an excellent ear . . . he thinks in charming rhythms."

Nock won respect, too, because he was a highly cultured man. As literary critic Van Wyck Brooks explained: "He was a formidable scholar and an amateur of music who remembered all the great singers of his day and could trace them through this part or that from Naples to St. Petersburg, London, Brussels, and Vienna. He had known all the great

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orchestras from Turin to Chicago . . . and he had visited half the universities of Europe from Bonn to Bordeaux, Montpelier, Liege and Ghent. He could pick up at random, with a casual air, almost any point and trace it from Plato through Scaliger to Montaigne or Erasmus, and I can cite chapter and verse for saying that whether in Latin or Greek he could quote any author in reply to any question. I believe he knew as well the Old Testament in Hebrew." American historian Merrill D. Peterson added: "He was a finished scholar, a brilliant editor, and a connoisseur of taste and intellect."

Nock's friend Ruth Robinson recalled, "He was a finely constructed man, with small bones, hands, and feet. He was five feet ten inches tall, slight and quick in movement; he kept his excellent figure and carriage throughout life. The salient expressions of his strong face were conveyed through his brilliant blue eyes, which could change instantly, be impenetrable, mischievous, or express great kindliness and sympathy. He had fair skin and high color and during all the years I knew him wore a mustache. . . . Long before his hair turned white, an iron-grey band at the edge of his brown hair was an outstanding characteristic of his appearance."

Nock was an intensely private man. People who worked with him for years had no idea that he had been a clergyman. "No one knew even where he lived," noted Van Wyck Brooks, "and a pleasantry in the office was that one could reach him by placing a letter under a certain rock in Central Park." Frank Chodorov, a friend during Nock's last decade, said, "It was only after I was appointed administrator of his estate that I learned of the existence of two full-grown and well-educated sons."

Social philosopher Lewis Mumford, who knew Nock early in his career, remembered that: "He was the very model of the old-fashioned gentleman, American style: quiet spoken, fond of good food, punctilious in little matters of courtesy, with a fund of good stories, many of them western; never speaking about himself, never revealing anything directly about himself." Added Chodorov, "Nock was an individualist."

Beginnings

Albert Jay Nock was born October 13, 1870, in Scranton, Pennsylvania. He was the only child of Emma Sheldon Jay, who descended from French Protestants. His father, Joseph Albert Nock, was a hot-tempered steelworker and Episcopal clergyman.

Nock grew up in a semirural Brooklyn, New York, neighborhood, and the family had a large garden and fruit trees. According to his account, he learned the alphabet by puzzling over a newspaper and asking questions. He didn't attend school until he was a teenager, but at home he was surrounded by books, which he explored randomly. He recalled that the first book he focused on was Webster's Dictionary, probably because it was a fat book on a lower shelf. "The dictionary became quite literally my bosom friend, for I lugged it about, clasped it to my breast with both hands, from one place to another where I should not be underfoot, and there I would lay it open on the floor and read it."

When Nock was ten, his father got a job on the upper shore of Lake Huron. There he observed "independence, self-respect, self-reliance, dignity, diligence . . . the virtues that once spoke out in the Declaration of Independence. . . . Our life was singularly free; we were so little conscious of arbitrary restraint that we hardly knew government existed. . . . On the whole our society might have served pretty well as a standing advertisement for Mr. Jefferson's notion that the virtues which he regarded as distinctively American thrive best in the absence of government."

After attending a private preparatory school, Nock entered St. Stephen's College (later to become Bard College) in 1887. It had fewer than one hundred students. Both institutions stressed a classical curriculum, and Nock relished Greek and Latin literature. He graduated third in his ten-student class. Nock reportedly went on to attend Berkeley Divinity School, Middletown, Connecticut, and although he left after about a year, he was ordained in the Episcopal Church in 1897. The following year, he began serving as assistant rector at St. James Church, Titusville,

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Pennsylvania. He succeeded the rector, who died on New Year's Day 1899.

It was in Titusville that Nock met Agnes Grumbine, and they were married April 25, 1900. They had two sons: Samuel, born in 1901, and Francis, born in 1905. Nock left his wife soon thereafter, and never remarried. His sons grew up to become college teachers. Meanwhile, Nock was called to Christ Episcopal Church, Blacksburg, Virginia, and then to St. Joseph's Church in Detroit. In 1909, he seems to have experienced a crisis of faith. "My life was detached, untouched and colorless," he later told Ruth Robinson.

Nock embraced ideas of crusading economic reformer Henry George. "As a social philosopher, George interested me profoundly," Nock recalled, "as a reformer and publicist, he did not interest me.... George's philosophy was the philosophy of human freedom ... he believed that all mankind are indefinitely improvable, and that the freer they are, the more they will improve. He saw also that they can never become politically or socially free until they have become economically free."

Nock quit the clergy to become an editor of *American Magazine*, launched by editors and writers who had a falling out with S.S. McClure, the pioneering muckraking publisher. Nock worked at *American Magazine* for four years. He wrote articles advocating a single tax on land and—it must be confessed—he approved Canada's policy of having government own vast acreage. He befriended the former Toledo mayor and aspiring scholar Brand Whitlock, who later wrote a biography of the Marquis de Lafayette. He spent time with the likes of muckraking journalists Lincoln Steffens and John Reed. He honed his writing. "My stuff is good enough, perhaps," he wrote Ruth Robinson, "and surely better than five or six years ago, but it still sounds as though it was written from a seat in the grand stand."

The Players Club

Nock frequented the Players Club, fabled gathering place for people in the arts since it was established by actor Edwin Booth and author Mark Twain. Located at 16 Gramercy Park South, Manhattan, it is a Gothic Revival style five-story house that architect Stanford White transformed into the club in 1888. Out front are a wrought-iron balcony and Renaissance-style gaslights. The Players Club has one of America's largest libraries on the theatre and portrait paintings by Gilbert Stuart, John Singer Sargent, and Norman Rockwell. Besides Nock, illustrious members have included caricaturist Thomas Nast, theatrical actors John Barrymore and Helen Hayes, screen actors James Cagney and Douglas Fairbanks, Jr. Nock liked to take mail, eat, and play pool at the Players Club—a portrait of Mark Twain hangs over a fireplace, and one of Twain's pool cues is on display. Nock's business card simply said: "Albert Jay Nock, Players Club, New York."

Nock absorbed the ideas of German sociologist Franz Oppenheimer, whose radical book *Der Staat* was published in 1908. An English translation, *The State*, appeared in 1915. Oppenheimer had noted that there were only two fundamental ways of acquiring wealth—work and robbery. He declared that government was based on robbery.

In 1914, cash-short *American Magazine* was about to be acquired by a publisher intent on avoiding controversy. Nock joined the staff of *The Nation*, which was owned and edited by Oswald Garrison Villard, grandson of antislavery crusader William Lloyd Garrison. Nock came to admire Villard, who courageously opposed President Woodrow Wilson's scheming to get America into the First World War. One of Nock's articles, on labor union agitator Samuel Gompers, provoked Wilson's censors to suppress *The Nation*.

The Freeman

Nock, however, decided he couldn't abide Villard's approval of nationalizing railroads. He resigned from *The Nation* and, backed by Helen Swift Neilson, daughter of Gustavus Swift and heir to a meatpacking fortune, he became editor of a new magazine of opinion: *The Freeman*. The first weekly issue appeared March 17, 1920. The magazine measured 8½ inches by 12½ inches and contained 24 pages

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of articles and letters about politics, literature, music, and other topics.

Nock's principal collaborator was Neilson's English husband, Francis, a former stage director at the London Royal Opera and radical Liberal Member of Parliament who became a leading pacifist. Disgusted by England's entry in the First World War, Neilson came to the United States and became an American citizen. He provoked controversy with his book *How Diplomats Make War*, published in 1915 by Benjamin W. Huebsch, who subsequently served as president of *The Freeman*.

Practically from the beginning, there was rivalry between the collaborators. Will Lissner, a former *New York Times* writer who knew both Nock and Neilson, recalled that "Nock rewrote many of Neilson's articles in Nock's own distinctive style, causing the readers to assume that 'Nock was *The Freeman*.' Neilson bitterly resented this assumption." Lewis Mumford reported that "Nock couldn't bear Neilson's somewhat inflated parliamentary style; and he would quietly put Neilson's contributions in the drawer of his desk, letting them gather dust. . . ." In his memoirs, published after Nock's death, Neilson claimed Nock had stolen his stuff. Nock was more graceful. "I had far less to do with forming or maintaining [*The Freeman*] than people think I had. My chief associate was . . . one of the ablest men I ever knew, far abler than I, and more experienced."

The editorial staff included Suzanne La Follette. In her mid-twenties, she was the daughter of "progressive" U.S. Senator Robert M. La Follette and a rigorous opponent of government intervention. "She was a very beautiful woman, with a hilarious sense of humor, a grammatical stickler . . . a feminist . . . generous and warm-hearted," recalled William F. Buckley Jr., who knew her in later years.

There was an eclectic assortment of contributors, including economic historian Charles Beard, book reviewer Van Wyck Brooks, Soviet critic William Henry Chamberlin, technology critic Lewis Mumford, philosopher Bertrand Russell, muckraker Lincoln Steffens, poet Louis Untermeyer, and economist Thorstein Veblen—*The Freeman* decidedly wasn't a hard-core libertarian magazine.

Albert Jay Nock

Oswald Garrison Villard hailed *The Freeman* for, he assumed, joining the "ranks of liberal journalism," but Nock replied in the March 31 issue: "*The Freeman* is a radical paper; its place is in the virgin field, or better, the long-neglected and fallow field, of American radicalism.

"The liberal believes that the State is essentially social and is all for improving it by political methods so that it may function accordingly to what he believes to be its original intention. Hence, he is interested in politics, takes them seriously, goes at them hopefully, and believes in them as an instrument of social welfare and progress. . . . The radical, on the other hand, believes that the State is fundamentally anti-social and is all for improving it off the face of the earth; not by blowing up office-holders . . . but by the historical process of strengthening, consolidating and enlightening economic organization."

To better understand the roots of freedom,

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Nock urged Americans to "resolutely close their eyes to diplomatic exchanges and official pronouncements, and read Thomas Paine, Thomas Jefferson, Thoreau, Wendell Phillips, Henry George." Nock added that "without economic freedom no other freedom is significant or lasting, and that if economic freedom can be attained, no other freedom can be withheld."

Of the consequences of the First World War, Nock wrote: "The war immensely fortified a universal faith in violence; it set in motion endless adventures in imperialism, endless nationalist ambitions. Every war does this to a degree roughly corresponding to its magnitude."

Nock wrote more about diplomacy than any other subject for *The Freeman*, and although he didn't pore through all the diplomatic documents, he did gain perspective by traveling through Europe. For instance, he witnessed the 1923 German runaway inflation: "I crossed from Amsterdam to Berlin with German money in my bill-fold amounting nearly to $1,250,000, pre-war value. Ten years earlier I could have bought out half a German town, lock, stock and barrel, with that much money, but when I left Amsterdam my best hope was that it might cover a decent dinner and a night's lodging."

Nock turned some of his *Freeman* articles into his first book: *The Myth of a Guilty Nation*, which, based on the work of Francis Neilson, debunked the idea that Germany was solely responsible for World War I. Nock insisted all the participants deserved blame for the catastrophe that resulted in some 10 million deaths. Historian Harry Elmer Barnes wrote that "*The Myth of a Guilty Nation* was a brilliant piece of journalistic Revisionism. . . . It took some courage in those days."

Unfortunately, *The Freeman* never attracted more than about 7,000 subscribers—far from enough to become self-sustaining. Annual losses reportedly exceeded $80,000. The magazine ceased publication after the March 5, 1924, issue. There had been 208 issues, and Nock seems to have contributed 259 pieces. *Atlantic Monthly* editor Ellery Sedgwick remembered Nock's *Freeman* as "admirably written, diverting, original, and full of unpredictable quirks." Oswald Garrison Villard expressed "grateful thanks that it has existed, and our belief that it would be a misfortune if some other medium were not found to avail itself of Mr. Albert Jay Nock's exceptional equipment for editorial service."

Nock sailed for Brussels, where he had many fond memories: "Her ways and manners, her unpretending grace and charm, her feel of stability and soundness, are all just as you have been impatiently expecting to find them, and her face wears a jolly Flemish smile."

Back in New York, Nock became a good friend of H.L. Mencken, the maverick who edited *American Mercury*. "There is no better companion in the world than Henry," Nock exulted after one Manhattan dinner. "I admire him, and have the warmest affection for him. I was impressed afresh by his superb character—immensely able, unselfconscious, sincere, erudite, simple-hearted, kindly, generous, really a noble fellow if ever there was one in the world."

Soon Nock was writing for intellectual magazines like *American Mercury*, *Atlantic Monthly*, *Harper's*, *Saturday Review of Literature*, and *Scribner's*. *American Mercury*, for instance, published "On Doing the Right Thing." He wrote: "The practical reason for freedom, then, is that freedom seems to be the only condition under which any kind of substantial moral fibre can be developed. Everything else has been tried, world without end. Going dead against reason and experience, we have tried law, compulsion and authoritarianism of various kinds, and the result is nothing to be proud of."

Three admirers from Philadelphia, Ellen Winsor, Rebecca Winsor Evans, and Edmund C. Evans, provided funds which enabled Nock to pursue his projects—their assistance continued for the rest of his life. In 1924, he gathered together writings of the American humorist and social critic Artemus Ward (1834-1867), who had inspired Mark Twain. Ward had fallen out of fashion, and Nock thought his social criticism could be appreciated by just a small number of unusually civilized and perceptive people whom he called the "Remnant"—a term that would

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blossom into one of his better-known ideas a dozen years later.

Mr. Jefferson

Then Nock focused on book-length biographical essays. The first was *Mr. Jefferson* (1926), which skipped the most famous events of the Founder's life to focus on the development of his mind. Nock drew extensively on Charles Beard's *The Economic Origins of Jeffersonian Democracy*. Claude Bowers's *Jefferson and Hamilton*, published the same year, sold more copies at the time and did more to revive the reputation of Jefferson, who had been a forgotten man since the Civil War. But it is Nock's book that remains in print. H.L. Mencken wrote that Nock's book "is accurate, it is shrewd, it is well ordered, and above all it is charming. I know of no other book on Jefferson that penetrates so persuasively to the essential substance of the man." Harvard University's great narrative historian Samuel Eliot Morison hailed the "brilliancy" of Nock's *Jefferson*. Historian Merrill Peterson calls it "The most captivating single volume in the Jefferson literature."

Nock loved the sixteenth-century French humanist scholar, extravagant satirist, and maverick individualist François Rabelais, and in 1929 he wrote a book about him, collaborating with Oxford-educated researcher Catherine Rose Wilson. "Rabelais is one of the world's great libertarians . . . he has been a stay and support to my spirit for thirty years, and I could not possibly have got through without him. . . . The chief purpose of reading a classic like Rabelais is to prop and stay the spirit, especially in its moments of weakness and enervation, against the stress of life, to elevate it above the reach of commonplace annoyances and degradations, and to purge it of despondency and cynicism. He is to be read as Homer, Sophocles, and the English Bible, are to be read." Five years later, Nock wrote *A Journey into Rabelais's France*, a travelogue illustrated by his friend Ruth Robinson (1934).

Nock did a book-length essay on Henry George (1939), drawing substantially on the two-volume biography by Henry George Jr. Nock's contribution was as an interpreter, downplaying the importance of George's famous policy proposal—a single tax on land—regretting George's foray into New York City politics, and emphasizing his contributions as a philosopher of freedom. "He was one of the greatest of philosophers," Nock wrote, "and the spontaneous concurring voice of all his contemporaries acclaimed him as one of the best of men."

Meanwhile, in March 1930, backed by one Dr. Peter Fireman, Suzanne La Follette and Sheila Hibben had launched the *New Freeman*, but losses became too big, and it was discontinued after the March 1931 issue. Nock contributed 54 mostly short articles about art, literature, and education. There was little political commentary other than a call for ending Prohibition. His articles were reprinted in *The Book of Journeyman* (1930).

In *The Theory of Education in the United States* (1932) and other writings, Nock challenged the American dream of educating everybody. He believed that while most people could be trained to do useful things, only a few could truly cultivate their minds and contribute to civilization.

Nock provided an early warning of collectivist catastrophe. In July 1932, before Hitler came to power, Nock observed: "Things in Germany look bad at this distance. The new government, which is making use of Hitler, seems bent on a Napoleonic absolutism."

Nock was decades ahead of most intellectuals in condemning all tyranny. "Refrain from using the word Bolshevism, or Fascism, Hitlerism, Marxism, Communism," he noted in November 1933, "and you have no trouble getting acceptance for the principle that underlies them all alike—the principle that the State is everything, and the individual nothing."

Nock became an implacable foe of Franklin D. Roosevelt's New Deal. In May 1934, he wrote: "Probably not many realize how the rapid centralization of government in America has fostered a kind of organized pauperism. The big industrial states contribute most of the Federal revenue, and the bureaucracy distributes it in the pauper states wherever it will do the most good in a political way.

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The same thing takes place within the states themselves. In fostering pauperism it also by necessary consequence fosters corruption. . . . All this is due to the iniquitous theory of taxation with which this country has been so thoroughly indoctrinated—that a man should be taxed according to his ability to pay, instead of according to the value of the privileges he obtains from the government."

Nock embraced the pessimism of the architect Ralph Adams Cram, whose September 1932 *American Mercury* article "Why We Do Not Behave Like Human Beings" declared that most people are barbarians, there are limited prospects for improvement, and the future depends on a few civilized souls. "I held to my Jeffersonian doctrine for a long time, meanwhile trying my best to pick holes in Mr. Cram's theory," Nock recalled, "but with no success."

Nock's friend Bernard Iddings Bell persuaded him to accept a visiting professorship in American history at Bard College, part of Columbia University, and he served there between 1931 and 1933. He delivered a series of lectures which focused on the struggle for liberty. He subsequently massaged the lecture texts into his great radical polemic *Our Enemy, the State*. He drew from ideas of Franz Oppenheimer, who had written about the violent origins of the state. Nock championed the natural rights vision of Thomas Paine and Thomas Jefferson, the case for equal freedom articulated by Herbert Spencer. Nock ignored a taboo and spoke kindly of the American Articles of Confederation (1781–1789), the association of states without a central government. He shared American historian Charles Beard's view that the Constitution reflected a struggle among interest groups.

Our Enemy, the State

Our Enemy, the State appeared in 1935. Nock wrote: "There are two methods, or means, and only two, whereby man's needs and desires can be satisfied. One is the production and exchange of wealth; this is the *economic means*. The other is the uncompensated appropriation of wealth produced by others; this is the *political means* . . . the State invariably had its origin in conquest and confiscation."

"The State," he continued, "both in its genesis and by its primary intention, is purely anti-social. It is not based on the idea of natural rights, but on the idea that the individual has no rights except those that the State may provisionally grant him. It has always made justice costly and difficult of access, and has invariably held itself above justice and common morality whenever it could advantage itself by so doing."

Still far ahead of other intellectuals, Nock observed: "The superficial distinctions of Fascism, Bolshevism, Hitlerism, are the concern of journalists and publicists; the serious student sees in them only the one root-idea of a complete conversion of social power into State power. . . . In Russia and Germany, for example, we have lately seen the State moving with great alacrity against infringement of its monopoly by private persons, while at the same time exercising that monopoly with unconscionable ruthlessness."

Nock despaired about individuals who become willing tools of state power: "Instead of looking upon the State's progressive absorption of social power with the repugnance and resentment that he would naturally feel towards the activities of a professional-criminal organization, he tends rather to encourage and glorify it, in the belief that he is somehow identified with the State, and that therefore, in consenting to its indefinite aggrandizement, he consents to something in which he has a share."

Most reviewers ignored *Our Enemy, the State*, but it won surprising praise from the pro-New Deal *New Republic*. Editor George Soule ranked Nock among "the best essayists and soundest commentators on political history."

"Isaiah's Job"

In his June 1936 *Atlantic Monthly* article "Isaiah's Job," Nock explained his view that the future of civilization depended on what he called the "Remnant." He told the story of the Biblical prophet Isaiah, called by the Lord to warn people about terrible times coming.

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"Tell them," Nock quoted the Lord, "what is going to happen unless they have a change of heart and straighten up." But the Lord acknowledged missionary work wouldn't yield quick results: "The official class and their intelligentsia will turn up their noses at you, and the masses will not even listen. They will keep on their own ways until they carry everything down to destruction, and you will probably be lucky if you get out with your life."

Why bother? According to Nock, the Lord replied: "There is a Remnant.... They are obscure, unorganized, inarticulate, each one rubbing along as best he can. They need to be encouraged and braced up, because when everything has gone completely to the dogs, they are the ones who will come back and build up a new society; and meanwhile, your preaching will reassure them and keep them hanging on. Your job is to take care of the Remnant, so be off now and set about it."

Speaking to prospective prophets, Nock wrote that "Two things you know, and no more: first, that they exist; second, that they will find you. Except for these two certainties, working for the Remnant means working in impenetrable darkness; and this, I should say, is just the condition calculated most effectively to pique the interest of any prophet who is properly gifted with the imagination, insight, and intellectual curiosity necessary to a successful pursuit of his trade."

There was yet another revival of *The Freeman* in 1937. The creative spark was Frank Chodorov, who had met Nock the year before at the Players Club. The eleventh son of Russian immigrants, Chodorov had become director of the recently chartered Henry George School, and *The Freeman* served as its flagship publication. It was an 18- to 24-page monthly that defended capitalism and opposed American entry in the coming European war. Chodorov published at least eight articles by Nock.

More than ever, Nock rejected claims that government could deal with the monumental problems of the age. In his introduction to Henry Haskins's 1940 book *Meditations in Wall Street*, he insisted that "the State is the poorest instrument imaginable for improving human society, and that confidence in political institutions and political nostrums is ludicrously misplaced. Social philosophers in every age have been strenuously insisting that all this sort of fatuity is simply putting the cart before the horse; that society cannot be moralized and improved unless and until the individual is moralized and improved."

Nock recognized the futility of violent revolution. For instance, these remarks from his introduction to the 1940 edition of Herbert Spencer's *Man Versus the State*: "The people would be as thoroughly indoctrinated with Statism after the revolution as they were before, and therefore the revolution would be no revolution, but a *coup d'état*, by which the citizen would gain nothing but a mere change of oppressors. There have been many revolutions in the last twenty-five years, and thus has been the sum of their history."

Nock was considered a conservative for opposing Franklin Delano Roosevelt, who touted big government and schemed to get America into another European war. Yet Nock was among the few thinkers to maintain antiwar views during both world wars. Moreover, having abandoned his early "progressive" ideas for government intervention, he had actually become more radical. He affirmed his authentic radicalism in many of the 48 articles he wrote between 1932 and 1939 for *American Mercury*, hotbed of opposition to FDR. "The German State is persecuting great masses of its people," he wrote in March 1939, "the Russian State is holding a purge, the Italian State is grabbing territory, the Japanese State is buccaneering all along the Asiatic Coast.... The weaker the State is, the less power it has to commit crime. Where in Europe today does the State have the best criminal record? Where it is weakest: in Switzerland, Holland, Denmark, Norway, Luxemburg, Sweden, Monaco, Andorra....

"Many now believe that with the rise of the 'totalitarian' State the world has entered upon a new era of barbarism. It has not. The totalitarian State is only the State; the kind of thing it does is only what the State has always done with unfailing regularity, if it had the power to do it, wherever and whenever its own aggrandizement made that kind of thing expedient....

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"So it strikes me that instead of sweating blood over the inequity of foreign states, my fellow-citizens would do a great deal better by themselves to make sure that the American State is not strong enough to carry out the like inequities here. The stronger the American State is allowed to grow, the higher its record of criminality will grow, according to its opportunities and temptations."

Memoirs of a Superfluous Man

In the early 1940s Nock turned to writing his last and best-known book—*Memoirs of a Superfluous Man*. He worked at a house in Canaan, Connecticut. He gracefully chronicled the development of his ideas. He provided insightful commentary about his heroes—like Thomas Jefferson, Herbert Spencer, and Henry George. But he omitted most personal details about his life, and he was steeped in pessimism. "The American people," he lamented, "once had their liberties; they had them all; but apparently they could not rest o'nights until they had turned them over to a prehensile crew of professional politicians."

Nock assailed one of his favorite targets, compulsory government schooling, which promoted "superstitious servile reverence for a sacrosanct State. In another view one saw [government schooling] functioning as a sort of sanhedrin, a leveling agency, prescribing uniform modes of thought, belief, conduct, social deportment, diet, recreation, hygiene; and as an inquisitional body for the enforcement of these prescriptions, for nosing out heresies and irregularities and suppressing them. In still another view one saw it functioning as a trade-unionist body, intent on maintaining and augmenting a set of vested interests . . . an extremely well-disciplined and powerful political pressure group."

Harper's published *Memoirs of a Superfluous Man* in 1943. Adversaries, predictably, heaped criticism on the book—the *New York Times*'s Orville Prescott, for instance, blasted Nock for "a corrosive, contemptuous cynicism and a profound despair." But some reviewers, like intellectual compatriot Isabel Paterson, who wrote for the *New York Herald Tribune*, were charmed by the book.

Nock seems to have had few friends during his last years. He corresponded with his sons Francis and Samuel, with *Discovery of Freedom* author Rose Wilder Lane, and former *American Mercury* editor Paul Palmer. He often lunched with Frank Chodorov, who had been forced out of the Henry George School because he opposed American entry in World War II; after 1943, *The Freeman* became the *Henry George News* and has continued up to the present. Chodorov recalled his times with Nock: "Over a meal—I was usually ready for coffee before he finished his soup—he would regale you with bits of history that threw light on a headline, or quote from the classics a passage currently applicable, or take all the glory out of a 'name' character with a pithy statement of fact. He was a library of knowledge and a fount of wisdom, and if you were a kindred spirit you could have your pick of both."

Independent oilman William F. Buckley, Texas-born son of Irish immigrants, saw himself as part of "the Remnant" Nock cherished. Periodically he invited Nock to lunch at his family's Great Elm mansion in Sharon, Connecticut—despite Nock's radical ways. Buckley enjoyed Nock's individualism and his scholarship, and *Memoirs of a Superfluous Man* helped spur his son William F. Buckley Jr. to defy the collectivist trends of the time.

Nock's Last Years

Since no magazine would take Nock's writing, several friends set up the National Economic Council. Starting on May 15, 1943, it published the *Economic Council Review of Books,* which he edited. He continued almost two years until failing health led him to bow out. This work was picked up by Rose Wilder Lane.

In 1945, Nock developed lymphatic leukemia, and he gradually ran out of steam. He told his son Francis: "If sometimes you begin to think the old man is pretty good, and you feel that maybe you ought to be a bit proud of him . . . realize that he ain't so much after all." He moved in with his friend Ruth

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Robinson, who lived in Wakefield, Rhode Island. There he died August 19, 1945. He was 74 and left an estate of about $1,300. Since Nock had wanted to be buried "without any fuss," a local Episcopal priest conducted a simple funeral service at Robinson's house, and he was buried nearby in Riverside Cemetery.

In his quiet way, Nock had remarkable influence. Frank Chodorov championed Nock's brand of individualism through his books, his monthly newsletter *analysis* (he didn't capitalize the first "a"), and in the weekly newsletter *Human Events*, where he became an editor. He founded the Intercollegiate Society of Individualists.

According to Henry Regnery, who published two volumes of Nock's material after his death, *The Freeman* was an inspiration for *Human Events*, launched by newspaperman Frank Hanighen on February 2, 1944. Hanighen and his principal collaborator, former Haverford College president Felix Morley, were principled opponents of American intervention in foreign wars. Not long before his death, Nock had expressed his admiration for the enterprise and agreed to write some articles. Among the early contributors were William Henry Chamberlin, who had written for *The Freeman*, and Nock's antiwar comrade Oswald Garrison Villard.

In 1950, Nock's former editorial associate Suzanne La Follette joined with *Life* editor John Chamberlain and *Newsweek* columnist Henry Hazlitt to launch another *Freeman*—this time, as a biweekly. They were backed by businessman Alfred Kohlberg, Du Pont executive Jasper Crane, and Sun Oil heir Joseph N. Pew, Jr., among others. The distinguished contributors included William F. Buckley Jr., Frank Chodorov, John T. Flynn, F.A. Hayek, Ludwig von Mises, and Wilhelm Röpke. But by 1954, the editors were split between those (like Henry Hazlitt) who wanted to focus on economic freedom and those (like La Follette and volatile Willi Schlamm) who wanted to make anticommunism the key issue. The latter resigned and joined William F. Buckley Jr.'s new fortnightly, *National Review*—which, ironically, offered new subscribers a bonus collection of Nock's essays under the title *Snoring as a Fine Art* (1958).

Leonard E. Read's Foundation for Economic Education acquired *The Freeman*, pumped money into it, went to a monthly schedule, retained Chodorov as its first editor, and has issued it ever since. *Freeman* articles have been excerpted in the *Chicago Tribune*, *San Francisco Chronicle*, *Wall Street Journal*, *Reader's Digest*, and dozens of other publications, and *The Freeman* reaches readers in Argentina, Australia, Brazil, Britain, Canada, China, France, Germany, Greece, India, Indonesia, Italy, Japan, Lithuania, Malaysia, Poland, Russia, Switzerland, and 50 other countries, as well as the United States.

Despite the onslaught of wars and the relentless expansion of government power, individualism endures as a living creed, and Albert Jay Nock deserves considerable credit. He expressed fundamental issues of liberty with blazing clarity. He withstood withering criticism. He defied censors. He helped revive glorious names like Thomas Jefferson, Thomas Paine, and Herbert Spencer. His moral conviction, cosmopolitan scholarship, elegant prose, and steadfast devotion inspired others to join the epic struggle for liberty. □

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Isaiah's Job

by Albert Jay Nock

One evening last autumn, I sat long hours with a European acquaintance while he expounded a politico-economic doctrine which seemed sound as a nut and in which I could find no defect. At the end, he said with great earnestness: "I have a mission to the masses. I feel that I am called to get the ear of the people. I shall devote the rest of my life to spreading my doctrine far and wide among the populace. What do you think?"

An embarrassing question in any case, and doubly so under the circumstances, because my acquaintance is a very learned man, one of the three or four really first-class minds that Europe produced in his generation; and naturally I, as one of the unlearned, was inclined to regard his lightest work with reverence amounting to awe. . . .

I referred him to the story of the prophet Isaiah. . . . I shall paraphrase the story in our common speech since it has to be pieced out from various sources. . . .

The prophet Isaiah's career began at the end of King Uzziah's reign, say about 740 B.C. This reign was uncommonly long, almost half a century, and apparently prosperous. It was one of those prosperous reigns, however—like the reign of Marcus Aurelius at Rome, or the administration of Eubulus at Athens, or of Mr. Coolidge at Washington—where at the end the prosperity suddenly peters out and things go by the board with a resounding crash.

In the year of Uzziah's death, the Lord commissioned the prophet to go out and warn the people of the wrath to come. "Tell them what a worthless lot they are," He said. "Tell them what is wrong, and why, and what is going to happen unless they have a change of heart and straighten up. Don't mince matters. Make it clear that they are positively down to their last chance. Give it to them good and strong and keep on giving it to them. I suppose perhaps I ought to tell you," He added, "that it won't do any good. The official class and their intelligentsia will turn up their noses at you, and the masses will not even listen. They will all keep on in their own ways until they carry everything down to destruction, and you will probably be lucky if you get out with your life."

Isaiah had been very willing to take on the job—in fact, he had asked for it—but the prospect put a new face on the situation. It raised the obvious question: Why, if all that were so—if the enterprise were to be a failure from the start—was there any sense in starting it?

"Ah," the Lord said, "you do not get the point. There is a Remnant there that you know nothing about. They are obscure, unorganized, inarticulate, each one rubbing along as best he can. They need to be encouraged and braced up, because when everything has gone completely to the dogs, they are the ones who will come back and build up a new society; and meanwhile, your preaching will reassure them and keep them hanging on. Your job is to take care of the Remnant, so be off now and set about it." . . .

What do we mean by the masses, and what by the Remnant?

"Isaiah's Job" is extracted from Chapter 13 of Nock's book Free Speech and Plain Language, *copyright 1937 by Albert Jay Nock, published by William Morrow & Company, New York. This extract has been reprinted with permission.*

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As the word *masses* is commonly used, it suggests agglomerations of poor and underprivileged people, laboring people, proletarians. But it means nothing like that; it means simply the majority. The mass-man is one who has neither the force of intellect to apprehend the principles issuing in what we know as the humane life, nor the force of character to adhere to those principles steadily and strictly as laws of conduct; and because such people make up the great, the overwhelming majority of mankind, they are called collectively *the masses.* The line of differentiation between the masses and the Remnant is set invariably by quality, not by circumstance. The Remnant are those who by force of intellect are able to apprehend these principles, and by force of character are able, at least measurably, to cleave to them. The masses are those who are unable to do either.

The picture which Isaiah presents of the Judean masses is most unfavorable. In his view, the mass-man—be he high or be he lowly, rich or poor, prince or pauper—gets off very badly. He appears as not only weak-minded and weak-willed, but as by consequence knavish, arrogant, grasping, dissipated, unprincipled, unscrupulous. . . .

As things now stand, Isaiah's job seems rather to go begging. Everyone with a message nowadays is eager to take it to the masses. His first, last, and only thought is of mass-acceptance and mass-approval. His great care is to put his doctrine in such shape as will capture the masses' attention and interest. . . .

The main trouble with this [mass-man approach] is its reaction upon the mission itself. It necessitates an opportunist sophistication of one's doctrine, which profoundly alters its character and reduces it to a mere placebo. If, say, you are a preacher, you wish to attract as large a congregation as you can, which means an appeal to the masses; and this, in turn, means adapting the terms of your message to the order of intellect and character that the masses exhibit. If you are an educator, say with a college on your hands, you wish to get as many students as possible, and you whittle down your requirements accordingly. If a writer, you aim at getting many readers; if a publisher, many purchasers; if a philosopher, many disciples; if a reformer, many converts; if a musician, many auditors; and so on. But as we see on all sides, in the realization of these several desires the prophetic message is so heavily adulterated with trivialities, in every instance, that its effect on the masses is merely to harden them in their sins. Meanwhile, the Remnant, aware of this adulteration and of the desires that prompt it, turn their backs on the prophet and will have nothing to do with him or his message.

The Remnant

Isaiah, on the other hand, worked under no such disabilities. He preached to the masses only in the sense that he preached publicly. Anyone who liked might listen; anyone who liked might pass by. He knew that the Remnant would listen. . . .

The Remnant want only the best you have, whatever that may be. Give them that, and they are satisfied; you have nothing more to worry about. . . .

In a sense, nevertheless, as I have said, it is not a rewarding job. A prophet of the Remnant will not grow purse-proud on the financial returns from his work, nor is it likely that he will get any great renown out of it. Isaiah's case was exceptional to this second rule, and there are others—but not many.

It may be thought, then, that while taking care of the Remnant is no doubt a good job, it is not an especially interesting job because it is as a rule so poorly paid. I have my doubts about this. There are other compensations to be got out of a job besides money and notoriety, and some of them seem substantial enough to be attractive. Many jobs which do not pay well are yet profoundly interesting, as, for instance, the job of the research student in the sciences is said to be; and the job of looking after the Remnant seems to me, as I have surveyed it for many years from my seat in the grandstand, to be as interesting as any that can be found in the world.

The fascination—as well as the despair—of the historian, as he looks back upon Isaiah's Jewry, upon Plato's Athens, or upon Rome of the Antonines, is the hope of discovering and laying bare the "substratum of right-thinking

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and well-doing" which he knows must have existed somewhere in those societies because no kind of collective life can possibly go on without it. He finds tantalizing intimations of it here and there in many places, as in the Greek Anthology, in the scrapbook of Aulus Gellius, in the poems of Ausonius, and in the brief and touching tribute, *Bene merenti,* bestowed upon the unknown occupants of Roman tombs. But these are vague and fragmentary; they lead him nowhere in his search for some kind *of* measure of this substratum, but merely testify to what he already knew *a priori*—that the substratum did somewhere exist. Where it was, how substantial it was, what its power of self-assertion and resistance was—of all this they tell him nothing.

Similarly, when the historian of two thousand years hence, or two hundred years, looks over the available testimony to the quality of our civilization and tries to get any kind of clear, competent evidence concerning the substratum of right-thinking and well-doing which he knows must have been here, he will have a devil of a time finding it. When he has assembled all he can get and has made even a minimum allowance for speciousness, vagueness, and confusion of motive, he will sadly acknowledge that his net result is simply nothing. A Remnant were here, building a substratum like coral insects; so much he knows, but he will find nothing to put him on the track of who and where and how many they were and what their work was like.

Concerning all this, too, the prophet of the present knows precisely as much and as little as the historian of the future; and that, I repeat, is what makes his job seem to me so profoundly interesting. One of the most suggestive episodes recounted in the Bible is that of a prophet's attempt—the only attempt of the kind on record, I believe—to count up the Remnant. Elijah had fled from persecution into the desert, where the Lord presently overhauled him and asked what he was doing so far away from his job. He said that he was running away, not because he was a coward, but because all the Remnant had been killed off except himself. He had got away only by the skin of his teeth, and, he being now all the Remnant there was, if he were killed the True Faith would go flat. The Lord replied that he need not worry about that, for even without him the True Faith could probably manage to squeeze along somehow if it had to; "and as for your figures on the Remnant," He said, "I don't mind telling you that there are seven thousand of them back there in Israel whom it seems you have not heard of, but you may take My word for it that there they are." . . .

The other certainty which the prophet of the Remnant may always have is that the Remnant will find him. He may rely on that with absolute assurance. . . .

He may be quite sure that the Remnant will make their own way to him without any adventitious aids; and not only so, but if they find him employing such aids, as I said, it is ten to one that they will smell a rat in them and will sheer off.

Such instances as these are probably not infrequent, for, without presuming to enroll ourselves among the Remnant, we can all no doubt remember having found ourselves suddenly under the influence of an idea, the source of which we cannot possibly identify. "It came to us afterward," as we say; that is, we are aware of it only after it has shot up full-grown in our minds, leaving us quite ignorant of how and when and by what agency it was planted there and left to germinate. It seems highly probable that the prophet's message often takes some such course with the Remnant.

If, for example, you are a writer or a speaker or a preacher, you put forth an idea which lodges in the *Unbewusstsein* of a casual member of the Remnant and sticks fast there. For some time it is inert; then it begins to fret and fester until presently it invades the man's conscious mind and, as one might say, corrupts it. Meanwhile, he has quite forgotten how he came by the idea in the first instance, and even perhaps thinks he has invented it; and in those circumstances, the most interesting thing of all is that you never know what the pressure of that idea will make him do. □

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THE FREEMAN
IDEAS ON LIBERTY

Russell D. Shannon, In Memoriam

by Donald J. Boudreaux

The ranks of those dedicated to the principles of a free society are too few to permit the loss of any champion of freedom to go unfelt. Sadly, Thanksgiving Day 1996 brought the untimely death of Russell Shannon—a man committed to his core to liberty and to human decency. He was quickly felled, at the too-young age of 58, by spinal cancer. This is a tragic loss to his family, friends, colleagues, and students.

After graduating from Duke University, Russell earned his doctorate from Tulane in 1965. That same year he began his career teaching economics at Clemson University. He never left. During his 31 years of teaching he inspired countless students, adeptly sharing the power of sound economic thinking. More importantly, Russell conveyed a sophisticated appreciation of the creative and coordinating might of a free society. He was, truly, a gifted and dedicated teacher.

Russell was also a talented expositor in print of economic ideas. Since January 1978, he contributed 29 articles and reviews to *The Freeman*. Indeed, his final contribution to *The Freeman*—a fine piece recounting the benefits of telephone deregulation—appeared in the December 1996 issue. This issue was printed only days before Russell died.

I met Russell when I joined the Clemson faculty in 1992, although I'd long before known of him through his contributions to *The Freeman*. Russell, several faculty colleagues, and I immediately began a monthly reading group. We started with several of Hayek's essays, and moved on to Hayek's *Fatal Conceit*. During the past few years, we also read and discussed articles by Ronald Coase, John Locke's *Second Treatise on Government*, Henry Hazlitt's *Foundations of Morality*, Richard Epstein's *Simple Rules for a Complex World*, and Alexis de Tocqueville's *Democracy in America*. We were in the midst of Tocqueville's masterpiece when Russell's illness struck.

It was Russell who suggested that we read Tocqueville. If, during our dinner meetings, the conversation strayed too far from the substance of the book, Russell skillfully brought our conversation back to germane issues in the text. He rightly insisted that Tocqueville's insights are too numerous and too deep to be treated summarily. Reading—no, *studying*—Tocqueville was for Russell a labor of love. He generously spent a good deal of time finding enlightening articles on Tocqueville and passing copies of these to each member of our group.[1]

Our reading group has a few chapters of Tocqueville remaining to be read and discussed. Whatever insights we glean will be fewer and duller than they would have been if Russell were still alive to lead and inspire our discussions.

More regrettably, Clemson's students will

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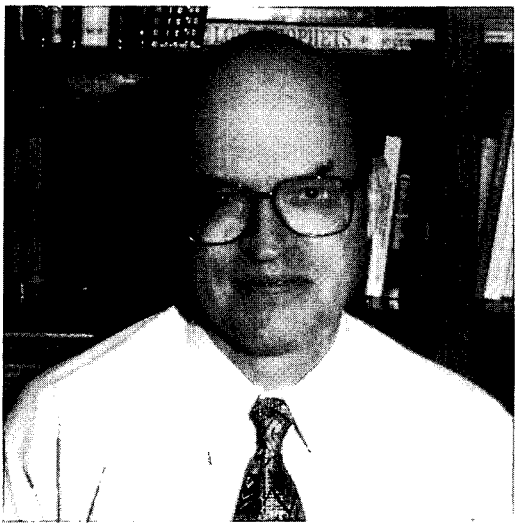

Russell Shannon

be poorer without Russell. In September, Russell walked into my office wearing as big a smile as I'd ever seen him wear. He announced that he'd been given permission to teach a semester-long course on Adam Smith's *Wealth of Nations*. He planned to teach it as a great-books course. He and his students would read and discuss Smith's great book from cover to cover. I'm sure that he would have taught the students in the class enormous amounts about Smith's famous work.

My wife, Karol, and I visited Russell less than 36 hours before he died. His spirits were remarkably upbeat. And, as always, his mind was on economics. He told us of how he planned to write an essay on the economics of the modern hospital. His several days in the hospital reinforced for him the power of Adam Smith's insights about wealth springing forth from the division of labor. The modern hospital, Russell realized, is an urban microcosm. He was impressed with its smooth operation, and with the large number of physicians, technicians, nurses, and other staff members who each play an important role. Russell pointed out that the modern hospital features public transportation (moving vertically rather than horizontally!), common areas, a police force, a mayor (called "administrator"), churches, shops, thruways, and, most importantly, a welter of people each highly specialized in performing tasks that redound to the benefit of multitudes.

Russell will not now write that essay. How unfortunate for those of us who stood to learn from the insights he would have conveyed.

Before closing, I want to relate one final anecdote involving Russell. A few months before Russell took ill, Bill Dougan, the chairman of Clemson's economics department, recollected some of the fine graduate students that this department has trained over the years. Among the best of these students is Todd Zywicki, who, after receiving his master's degree in economics from Clemson in 1990, earned a law degree from the University of Virginia. Todd now teaches law at the Mississippi College School of Law, and is compiling an impressive record of scholarly research. Bill recalled that when Todd first arrived at Clemson, Todd (a former FEE intern) was familiar with only one name on the faculty. That name was Russell Shannon. Todd knew Russell's name through Russell's essays in *The Freeman*.

Russell was first and foremost a dedicated and masterful teacher. He valued nothing more highly than success in inspiring the likes of Todd and myriad other students to appreciate both scholarship and the free society. He will be missed. □

1. Among the articles on Tocqueville that Russell recommended we read was Jim Powell's "Alexis de Tocqueville: How People Gain Liberty and Lose It," *The Freeman*, July 1996, pp. 520-526.

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The Rich Get Richer, and the Poor Get . . .

"The modern market economy accords wealth and distribution income in a highly unequal, socially adverse and also functionally damaging fashion."

—*John Kenneth Galbraith*

The allegation is appearing everywhere: Real average wages are stagnating and the distribution of wealth and income in the United States is becoming more unequal. In his latest book, Galbraith cites recent Federal Reserve statistics: "By 1992, the top 5 percent were getting an estimated 18 percent, a share that in more recent years has become substantially larger, as that of those in the poorest brackets has been diminishing. This, the good society cannot accept."[1] According to the Bureau of Labor Statistics, average real wages have been declining since the mid-1970s. If benefits are included, total real compensation has been rising, but only modestly. Finally, *Business Week* (February 25, 1996) declared, "Is America Becoming More of a Class Society?" The magazine cites several academic studies indicating less upward mobility for less-educated Americans. The *Wall Street Journal* (December 23, 1996) adds, "Inequality may grow for lifetime earnings."

Critics of market capitalism are often misled by conventional measures of economic well-being, in particular the Lorenz curve, which measures income distribution.

The Lorenz curve measures the percentage of a nation's total income as earned by various income classes. Typically, it is divided into five income groups. In the United States, the highest fifth (the highest income earners) usually receive 40 percent of the nation's income, while the lowest fifth (the lowest income earners) receive around 5 percent. Using the Lorenz curve, U.S. income appears to be seriously maldistributed, "now the extreme case among the major industrial countries," says Galbraith.

However, the Lorenz curve establishes an unfair and misleading guide for measuring social welfare. Suppose, for example, that an "ideal" line of "perfect" equality is achieved on the Lorenz curve, i.e., the highest fifth (top 20 percent of income earners) only receive 20 percent of the nation's income, while the bottom fifth (lower 20 percent) increase their share to 20 percent. What does this ideal mean? Everyone—the teacher, the lawyer, the plumber, the actor—earns the same amount of income![2]

Since few economists think equal wages for everyone is an ideal situation, why do they think moving toward "perfect equality" on the Lorenz curve is appropriate? Moreover, the Lorenz curve is unable to show an increase in a country's standard of living over time. It merely measures distribution of income.

To measure changes in social welfare, economists often rely on a second measure—average real income. This, too, has its shortcomings. A single statistic may mask improvements in an individual's standard of living over time.

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For example, average real income shows hardly any change since the mid-1970s. Yet other measures of well-being, such as consumer expenditures and the quantity, quality, and variety of goods and services, show remarkable advancement over the past 20 years. Consumer spending rose a dramatic 40 percent per person in real terms during this period. As Professor Richard Vedder says, "How many Americans in 1975 had VCRs, microwaves, CD players, and home computers?"

The Work of Stanley Lebergott

Stanley Lebergott, professor of economics at Wesleyan University, has probably done more work in this area than anyone else. Instead of relying on general measures such as average real income, he uses a more commonsense approach—looking at individual consumer markets in food, clothing, housing, fuel, housework, transportation, health, recreation, and religion. His work is fascinating.

For example, he developed the following table to measure improvements in living standards from 1900 to 1970:

Living Standards, 1900–1970

Percentage with . . .	Among All Families in 1900	Among Poor Families in 1970
Flush toilets	15	99
Running water	24	92
Central heating	1	58
One (or fewer) occupants per room	48	96
Electricity	3	99
Refrigeration	18	99
Automobiles	1	41

Source: Stanley Lebergott, *The American Economy* (Princeton University Press, 1976), p. 8.

In *Pursuing Happiness*, Lebergott demonstrates repeatedly how American consumers have sought to make an uncertain and often cruel world into a pleasanter and more convenient place. Medicines and medical facilities, artificial lighting, refrigeration, transportation, communication, entertainment, finished clothing—all have advanced living conditions.

Regarding women's work, Lebergott notes that weekly hours for household and family chores fell from 70 in 1900 to 30 by 1981. The 1900 housewife had to load her stove with tons of wood or coal each year and fill her lamps with coal oil or kerosene. "Central heating also reduced the housewife's tasks. She no longer had to wash the carbonized kerosene, oil, coal, or wood from clothes, curtains, and walls, nor sweep floors and vacuum rugs as persistently. Automated and mechanical equipment reduced her labor further. . . . By 1950, over 95 percent of U.S. families had the facilities [of] central heating, hot water, gas, electric light, baths, and vacuum cleaners."[3]

Regarding water, Lebergott comments, "The average urban resident consumed about 20 gallons of water per day in 1900. Rural families had virtually no piped water; 55 percent did not even have privies. . . . By 1990, American families devoted two days' worth of their annual income to get about 100 sanitary gallons every day, piped into the home."[4]

Benefits to the Poor, Too

This kind of historical perspective is refreshing and eye-opening. The increase in the standard of living as measured by the quantity, quality, and variety of goods and services has increased dramatically and profoundly in the twentieth century, for people of all incomes. In many ways, the poor have advanced the most and are now capable of living in decent housing, owning an automobile, and enjoying many of the pleasures previously afforded by the wealthy. Cheap airline services allow them to travel extensively. Television gives them the chance to see sports events and musical shows previously limited to the rich and the middle class. Compared to yesteryear, every house today is a castle, every man is a king. □

1. John Kenneth Galbraith, *The Good Society: The Humane Agenda* (Boston: Houghton Mifflin Co., 1996), p. 50.
2. For a critique of the Lorenz curve, see my work *Economics on Trial* (Irwin, 1991), pp. 187–197.
3. Stanley Lebergott, *Pursuing Happiness: American Consumers in the Twentieth Century* (Princeton, N.J.: Princeton University Press, 1993), p. 58.
4. *Ibid.*, pp. 117–118. See also Lebergott's latest work, *Consumer Expenditures* (Princeton, N.J.: Princeton University Press, 1996).

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BOOKS

The Bamboo Network: How Expatriate Chinese Entrepreneurs Are Creating a New Economic Superpower in Asia

by Murray Weidenbaum and Samuel Hughes

Free Press • 1996 • 272 pages • $24.00

Reviewed by William H. Peterson

A sharp turn in human events since the end of the Cold War is the emergence of a powerful new global economic force, one without fanfare, and in an unexpected place: Southeast Asia.

The force is the "Bamboo Network." It's made up of rich entrepreneurial Chinese families in Greater China: booming Mainland China (population 1.2 billion with a land mass as big as Canada), Hong Kong, and Taiwan for the most part; and, in one degree or another, in nearby and similarly booming Thailand, Singapore, Malaysia, Indonesia, Vietnam, and the Philippines.

This Bamboo Network is quickly advancing from socialism or heavy state interventionism to a huge market economy, from degrees of totalitarianism to forms of limited republics—with Mainland China and its strict one-party rule having the greatest way to go.

What is more, this late-blooming economic miracle, an unmatched recast of much of the Far East, is envisioned, financed, and led in great measure not by Japanese and Western investors but by those aforementioned wealthy, mainly overseas Chinese family investors and entrepreneurs. They bring to mind the earlier House of Rothschild phenomenon of internationalization and multiplication of family fortunes.

Ironically, most of these ethnic Chinese superinvestors, while removed from their ancestral home, are now closely involved with its economic success as well as that of their new-found homes, despite some lingering local discrimination (Malays vs. Chinese, for example). These superinvestors are the refugees, or their children, who fled the Maoist communists in the 1940s. They have much to teach their Western counterparts who invest in that part of the world—or anywhere else.

Such are the fascinating Weidenbaum-Hughes findings. Murray Weidenbaum, President Reagan's first chairman of the Council of Economic Advisers, holds the Mallinckrodt distinguished chair at Washington University in St. Louis, where he also serves as chairman of the University's Center for the Study of American Business. Samuel Hughes, a former Center fellow, is a St. Louis-based management consultant.

The authors supply fresh meaning to networking, noting "it is common for the father-CEO stationed in Hong Kong or Bangkok or Singapore to send one son to Shanghai, another to Taipei, a son-in-law to Manila, and a nephew to Kuala Lumpur," so positioning them in the Bamboo Network for future senior leadership. (Nepotism doesn't extend as far for daughters.)

Confucian culture explains a good deal of what's behind the dramatic rise of the Bamboo Network and its growing, pounding heart, Mainland China. The philosophy of Confucius, who died in 479 B.C., has been the fare of Chinese students ever since. His values help explain the Bamboo Network's business success—values that include loyalty to the hierarchical structure of authority, a code of defined conduct between children and parents and other adults, a work and quality ethic, a sense of ethnic responsibility, a disdain for conspicuous consumption, consequent high saving rates, a bent for focus, and a drive for entrepreneurship as a dynamic rivalrous process to combine land, labor, and capital into profitable, privately held enterprises that serve and are served.

Covered here then are the Charoen Pokphand Group of Thailand, the Li Ka-shing Group of Hong Kong, the Ong Beng Seng Group of Singapore (whose holdings include participation in Planet Hollywood, a movie-theme restaurant chain co-owned by Arnold Schwarzenegger and Sylvester Stallone), the Y. C. Wang Group of Taiwan, the Salim Group of Indonesia, the Kuok Group of

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Malaysia, and the Henry Sy Group of the Philippines. (Henry Sy's teenage daughter was abducted and killed in 1993. The authors note that rich local Chinese offer tempting targets to Filipino criminal gangs.)

The authors also note the Bamboo Network has only partially checked bribery, lack of property rights protection, and enforcement of contracts in the People's Republic of China. Intellectual property security, such as trademarks and copyrights, is regularly broken. Imitation Bausch & Lomb Ray Ban sunglasses are sold as "Ran Bans," for instance. Lux brand soap in the same colored wrapper is passed along as "Lix" soap. Dupont's copyrighted rice plant herbicide formula has been filched and produced without royalties. Software and movie video theft is fair game, upsetting American executives at, among other firms, Microsoft and Walt Disney.

Relatedly, McDonald's 20-year restaurant land lease in Beijing was summarily torn up in 1994 to make room for a more lucrative Oriental Plaza complex of commercial, office, and residential properties. A sop to McDonald's: a "guaranteed" spot in the complex upon its completion in 1998.

So degrees of apathy and corruption are "in" in the PRC. Shangri-La it's not. The message to entice U.S. citizens and firms: Be wary. The U.S. Foreign Corrupt Practices Act subjects American bribe-payers, if caught, to a fine of up to $100,000 plus five years in prison.

Yet the wary can win out. Coca-Cola, for example, sells 2.4 billion cans a year—or two for each man, woman, and child—winning over 15 percent of China's fast-growing soft-drink market. Motorola has won a large fraction—$2 billion in sales in 1994 on its investment of $1.2 billion in the PRC—of the fast-growing Chinese cellular phone and pager market.

Motorola is among the 70 percent of all U.S. firms whose Far Eastern headquarters are in Hong Kong, a strategic location for mainland know-how and joint-venture connections. Motorola's neighbors there include Bank of America, Dun & Bradstreet, Exxon, Hyatt, Time-Warner, May Department Stores, PepsiCo, Polaroid, Walt Disney, and Xerox. The largest overseas U.S. Chamber of Commerce is the American chamber in Hong Kong.

Indeed, China could already be the world's second largest economy, suddenly surpassing Japan. (Is the United States next?) Using the controversial "purchasing power parity" theory of measuring output by comparing each national currency's buying power of a similar "market basket" of goods, *The Economist* (March 9, 1996) puts China's GDP at $3.0 trillion in 1994 against Japan's $2.7 trillion and the United States' $7.0 trillion.

But what of the future? Two clouds on the horizon: What happens to the Chinese Communist party leadership when time and tide catch up with the revered founder of the PRC Economic Revolution, Deng Xiaoping, now in his nineties? And how will Hong Kong fare with its Colossus parent when it becomes a "special administrative unit" of the PRC in July 1997, even with "guaranteed" retention of its present social, economic, and legal systems for 50 years, according to the British-PRC Joint Declaration of 1984?

So the authors wind up their insightful book with a self-described "foggy crystal ball" and see three possible scenarios for the giant PRC: successful transition to a market economy, reversion to communism, and growing instability leading to fragmentation.

The first scenario on a successful transition signals a triumph for world freedom and free enterprise along with a spur to global trade and economic growth. The second scenario on reversion to communism takes heed of PRC's ownership of—apart from nuclear warheads—literally thousands of subsidized, mostly money-losing state enterprises, some of them very large. Many xenophobic state enterprise operators resent the intrusion of foreign competition, foreign capital, foreign products, foreign ideas, and foreign influence in Beijing and throughout the provinces. The third scenario on fragmentation sees how, for example, the highly successful southeastern province of Guangdong with its Cantonese dialect and its next-door proximity to Cantonese-speaking Hong Kong—itself shrewd if nervous—could break away.

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In all three scenarios the Western-educated younger generation of overseas Chinese business leaders will play a decisive role. Ah, but how? Time will tell. Stay tuned. Meanwhile, Murray Weidenbaum and Samuel Hughes remind you that the Chinese symbol for durability is bamboo, that as an old oriental maxim puts it: "Bamboo bends; it does not break." □

Dr. Peterson is this month's guest editor.

Christianity and Economics in the Post-Cold War Era: The Oxford Declaration and Beyond

Edited by Herbert Schlossberg, Vinay Samuel, and Ronald J. Sider

Eerdmans Publishing Company • 1994 • 149 pages • $11.00 paperback

Reviewed by John W. Robbins

As part of an ecumenical effort to articulate a religious view of economics and economic systems, 36 conferees describing themselves as "evangelical"—an undefined term which apparently means neither Roman Catholic, Eastern Orthodox, nor liberal Protestant—gathered in 1987, and over 100 gathered in 1990 at Oxford and again in New Delhi in 1995.

The result of the second meeting in 1990 was the "Oxford Declaration." This volume, which includes the text of the Oxford Declaration and 11 essays that are commentaries on it, explains the genesis of the Oxford Declaration as being organized by Ronald Sider, author of *Rich Christians in an Age of Hunger*. (The editors fail to list the signatories of the Declaration, and to disclose who funded this expensive project.)

What is the Declaration itself? Its full title is "The Oxford Declaration on Christian Faith and Economics." It makes pronouncements on four major topics: Creation and Stewardship; Work and Leisure; Poverty and Justice; and Freedom, Government and Economics. It is actually an updating, a greening, of the old social gospel, the gospel of altruism, that swept through American Protestant churches at the beginning of the twentieth century. The Declaration makes no contribution to an understanding of either Christianity or economics. It makes a thorough muddle of both. It is an ambiguously worded document of undefined terms and emotive phrases.

Filled with the jargon of socialism, interventionism, and welfare liberalism—basic needs, common good, exploitation, selfish individualism, empowerment, ecology, dehumanization, environmental devastation, inequitable distribution of wealth and income—the Declaration calls for government action on several fronts, for example: (1) "to create and enforce just frameworks of incentives and penalties . . . [to promote] ecologically sound practices"; (2) "the right to earn a living would be a positive or sustenance right. Such a right implies the obligation of the community to provide employment opportunities"; (3) "We encourage governments and international financial institutions to redouble their efforts to find ways to . . . ensure the flow of both private and public productive capital where appropriate"; and (4) "We urge that a major part of the resulting 'peace dividend' be used to provide sustainable solutions to the problems of the world's poor." There is more, but by now the reader gets the general idea.

The only redeeming economic value this book has is two essays by Calvin Beisner (of Covenant College) and Herbert Schlossberg (of the Fieldstead Institute), both participants in the Oxford conference. Beisner attacks the Declaration directly for its contradictory ideas about justice, and Schlossberg finds it astonishing that the Declaration (1) says nothing at all about capital formation, and (2) assumes the Marxist notion that economic theory rests on and is concerned only with material factors.

The Declaration implies a rejection of both capitalism and central planning, but the notion that there is a third way is a chimera. Neither social stability nor freedom can be achieved by attempting to combine the primacy of the individual with the primacy of the group; or equality before the law with partiality for favorites; or the rule of law with the rule of whim.

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The Declaration concludes: "We acknowledge that all too often we have allowed society to shape our views and actions and have failed to apply scriptural teaching in this crucial area of our lives, and we repent." Would that they had. □

Dr. Robbins is president of the Trinity Foundation.

Getting It Right: Markets and Choices in a Free Society

by Robert J. Barro

MIT Press • 1996 • 191 pages • $20.00

Reviewed by Chris Weinkopf

Despite serving on the faculty at Harvard, Robert J. Barro is judicious, discerning, and an unflagging champion of liberty. He is not scared to tackle taboo—blasting the faux science of "second-hand smoke" hysteria, and questioning the wisdom of "protecting" endangered species at the cost of untold millions. Such unconventional wisdom makes him eminently likable to conservatives and libertarians. They will no doubt rush to buy, read, and enjoy this book. But only the first task will come easy.

This is not to say that *Getting It Right* has nothing to offer; even valuable lessons can be hard to sit through, and on various subjects, most notably foreign policy, Professor Barro has much to teach. He spurns foreign aid and third-world-debt forgiveness schemes for subsidizing socialism and discouraging private-sector investment. Likewise, he dissects the notion that the United States can implement democracy in areas that don't protect property rights, let alone support functional markets. Even the war on drugs—an obvious domestic failure—has harmful international repercussions, providing an easy source of revenue for foreign guerrillas like Peru's Shining Path.

But Barro's greatest asset, his ability to demonstrate free-market truths empirically (often with charts and diagrams), becomes a liability when he places greater trust in tables and formulae than in common sense and public knowledge. In the first chapter, Barro assigns numerical values to the economic freedom of various countries. He confidently forecasts that states with a capitalism quotient higher than a base minimum will be more democratic by the year 2000. Hong Kong ranks third in his list of nations on the fast track to political freedom—never mind that the tyrants of Peking take over in July.

His commitment to economic analysis sometimes supersedes even his own good instincts. Barro offers tortured reasoning to explain that Major League Baseball must impose caps on its players' "excessive" salaries because "the competitive wage for athletic skills reflects the benefit to an individual team . . . in contrast, the 'correct' wage from a social standpoint is the value of all teams having better players." But unregulated teams will never pay a player too much (more than what he can earn for them at the box office, concession and souvenir stands, or in TV revenues); Barro should know that.

This wonkish approach might be tolerable if it didn't also infuse the writing, but it does. *Getting It Right* is a collection of columns not published as separate essays, but strung together haphazardly in what fails to comprise a coherent whole. Barro's prose is drier than toasted rye, and not because it includes too much data or jargon, but because it lacks conviction. For example, Barro blithely dismisses the Civil War, saying slavery "would have been eliminated peacefully in not very many years." Perhaps, but this reasoning ignores the moral imperative, not to mention natural rights. His arguments for freedom are always strictly utilitarian; he never acknowledges that liberty has an innate value separate from its material benefits. That sort of sagacity doesn't show up in a graph. □

Mr. Weinkopf is the editor of National Review Online *(http://www.nationalreview.com).*

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Classical Economics: An Austrian Perspective on the History of Economic Thought, Volume II

by Murray N. Rothbard

Edward Elgar Publishing Limited • 1995 • 528 + xvi pages • $99.50

Reviewed by Douglas E. French

Years ago Murray Rothbard set out to write an Austrian answer to Robert Heilbroner's *The Worldly Philosophers*. Rothbard was much more ambitious than Heilbroner, whose 347 pages only (lightly) covers from Adam Smith to "The Modern World." Professor Rothbard kept finding more and more characters that influenced economic thought, resulting in a two-volume history of economic thought from the Austrian perspective. His death in 1995 kept him from finishing the third volume.

Volume II, entitled *Classical Economics*, picks up the story (which started with the Ancient Greeks in Volume I) with Frenchman J.B. Say. "Say's Law" is known to all Econ 101 students as "supply creates its own demand." But little else is taught about Say. Yet, Say's *Treatise on Political Economy* was the most popular economics text in the United States through the Civil War, going through 26 printings, after eight printings in French.

Rothbard next examines Jeremy Bentham, James Mill, and David Ricardo. Ricardo is known for "the law of comparative advantage," which makes the case for free trade. But, as Rothbard points out, Professor William O. Thweatt has demonstrated that Ricardo didn't originate the law of comparative advantage, didn't understand it, didn't even have much interest in it. It was in fact James Mill who first presented the law while defending free trade against Thomas Malthus's support of the Corn Laws.

The heart of *Classical Economics* revolves around the monetary and banking theories of the 1800s. With Great Britain suspending required specie payments, allowing the Bank of England to greatly inflate the supply of money, economic thinkers had to consider the effects of a fiat paper money system. The "bullionists" contended that the increase in paper money caused the price inflation. The opposing "anti-bullionists" placed the blame for the higher prices on wartime disruptions, supply shortages, and any other cause that let the government and Bank of England off the hook.

The boom and subsequent bust of 1825 in Britain led to the currency versus banking school debate. The currency school advocates insisted that bank notes be backed 100 percent by specie. Unfortunately, they forgot about demand deposits. Thus, as Rothbard writes, "the banking system, led by the Bank of England, [shifted] their inflationary and expansionary attentions to deposits alone—a condition that still prevails throughout the world."

Next, Rothbard looks at Marxism with a religious slant: "Marx harked back to the apocalyptics, . . . who foresaw a bloody Armageddon at the Last Days, before the millennium could be established." "Violent, worldwide revolution, in Marx's version made by the oppressed proletariat, would be the instrument of the advent of his millennium, communism."

Rothbard uses poems that Marx penned to expose him as "mean, hard-core, [and] proto-Stalinist." The mantra of Marxists is that free-market capitalism oppresses the masses for the benefit of the wealthy bourgeoisie. In terms of sheer numbers, no system has oppressed its citizens in the twentieth century like the communist governments of Lenin, Stalin, Mao, and Pol Pot, whose regimes "can be considered the logical unfolding, the embodiment, of the nineteenth century vision of their master, Karl Marx."

Rothbard leaves Marx for the French laissez-faire school, led by Frederic Bastiat, and closes with the decline of laissez-faire thought during the late 1880s and into the early 1900s, spurred by a burgeoning number of Ph.D.'s who sang the praises of "modern and progressive" Big Government.

The book's final paragraph puts a lump in the throat of any Murray Rothbard fan, student, or friend. He writes that, "it is now clear that the revolution against the classical

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school paradigm went far beyond emphasis on the marginal unit of a good or service, especially in the hands of Carl Menger and his followers. But that is the stuff of another volume."

For scholars and students, Rothbard's bibliographical essay is worth the hefty price of the book. Dr. Rothbard was dismayed that the publisher was asking so much for the two volumes (together nearly $200). This writer and other former students wrote Edward Elgar, attempting to convince the publisher that the book would reach a much wider audience, selling more units, if the price were lowered. But now, we just wish we could buy Volume III, no matter the price. □

Mr. French is a vice-president in commercial real estate lending for a bank in Las Vegas, Nevada.

The Life of Adam Smith

by Ian Simpson Ross

Clarendon Press, Oxford • 1995 • 495 pages • $35.00

Reviewed by Raymond J. Keating

If you ever wondered what books Adam Smith's father kept in his library, then Ian Simpson Ross's *The Life of Adam Smith* is for you. Indeed, Ross's biography of the father of free-market economics is jam-packed with such facts regarding Smith, his family, teachers, friends, and associates.

It's rather striking, when you consider Adam Smith's impact on mankind, that more has not been written about his life. As Ross notes, the last full-scale biography on Smith was published 100 years ago. *The Life of Adam Smith* paints a technically complete picture of Adam Smith—complete in the sense that the major endeavors of Smith's life are addressed. That is, we see Smith the student, the moral philosopher, the rhetorician, the historian, the teacher, the customs official, and of course, the economist.

Overall, we gain a portrait of Smith as a self-confident man, though modest and self-deprecating, absent-minded, charitable, and committed to scholarship to the point that his health sometimes suffered. Various particulars about Smith's personal life are noted, including a deep dedication to his mother, being kidnapped by gypsies at the age of three, a possible nervous breakdown as a student, and lifelong bachelorhood with one or two lost loves along the way. Ross concludes "that first and last [Smith] was a moralist whose character bore the impress of the Roman Stoics."

Ross warns, however: "We must not think that Smith's life was all labour over his books, worry over their reception, and refuge from concentration on chains of complex ideas in the endless ramifications of the business routine of the Customs Board. He enjoyed a stimulating social life, particularly through entertaining visitors from other countries in Edinburgh."

Ross discusses Smith's works in their entirety, naturally giving great attention to *The Theory of Moral Sentiments* and *An Inquiry into the Nature and Causes of the Wealth of Nations*. In summary, Ross notes that *The Theory of Moral Sentiments* contributed to a better understanding of the role of sympathy in moral judgments and developed the idea of the "impartial spectator to account for the formation of our judgements of ourselves." As for *The Wealth of Nations* and the economics model developed within, Ross observes: "The leading features of the model, with its concept of a freely competitive and self-regulating market, have proved highly attractive up to the present day." As defined by Smith himself, the Smithian model was the "obvious and simple system of natural liberty."

Ross illustrates that Smith's free-market ideas were brewing for some time before the publication of *The Wealth of Nations* in 1776. For example, Ross provides a quote from a 1755 paper prepared by Smith to be read to a society in Glasgow: "Little else is requisite to carry a state to the highest degree of opulence from the lowest barbarism, but peace, easy taxes, and a tolerable administration of justice; all the rest being brought about by the natural course of things. All governments which thwart this natural course, which force

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things into another channel, or which endeavour to arrest the progress of society at a particular point are unnatural, and to support themselves are obliged to be oppressive and tyrannical."

This biography particularly excels when examining the many people who influenced Adam Smith to varying degrees. Most important were his teacher Francis Hutcheson, his friend David Hume, and François Quesnay and the French Physiocrats.

The Life of Adam Smith is well worth reading. However, I must admit that the book left me wanting more in two particular areas. First, from the perspective of reading a biography, the tidbits regarding Smith's personal life were not enough to satiate me. This is probably an unfortunate consequence of the amount of information available, though, and not necessarily the fault of the author.

Second, the final chapter cried out for a stronger discussion regarding the massive and durable impact of Smith's economics for more than two centuries. Unfortunately, at the book's close, the reader possesses some doubt as to whether or not Ross fully grasps Smith's deep influence to this very day.

There is much for the free-market reader to appreciate in *The Life of Adam Smith*, with still a bit left to be desired. □

Mr. Keating serves as chief economist for the Washington, D.C.-based Small Business Survival Foundation.

Backfire
by Bob Zelnick
Regnery • 1996 • 416 pages • $27.50

The Affirmative Action Fraud
by Clint Bolick
Cato Institute • 1996 • x + 170 pages • $10.95 paperback

Reviewed by Michael Levin

Despite what should have been major legal setbacks from recent court decisions, organs of government continue to discriminate against white males, and to pressure private employers to do so. Two books attacking affirmative action are therefore most welcome.

Zelnick's is the more useful. Replete with statistics and telling anecdotes, it establishes the ubiquity of state-enforced double standards penalizing white males and favoring blacks and women on no other basis than race and sex. A reporter, Zelnick lets the facts speak for themselves and, when transcribing interviews, stays in the background. It is all here: the discrepancy in SAT scores between black and white university admittees (150 points or more at Princeton, Duke, Dartmouth, and Brown, among others), the discrepancy in admission *rates* (Amherst takes 51 percent of all blacks who apply as against 19 percent of whites, although the academic records of the blacks are far inferior); government set-asides of billions of dollars in contracts that virtually exclude whites; banks forced to subsidize mortgages for high-risk blacks; Justice Department charges of "discrimination" against home insurers (made in the absence of a single black complainant) leading to demands that "discouraged applicants" be paid millions of dollars in restitution.

Zelnick explains clearly the assault on testing in employment, various schemes to dilute white voting strength, and the "effects" test introduced into the 1982 Voting Rights Act, showing how they reduce productivity and polarize racial politics. Particularly odious are college admissions officers, one of whom swoons over mediocre grades by "minorities" while airily dismissing incomparably more qualified Jewish students with the remark "They'll be fine."

Analytical when required, Zelnick replies effectively to the arguments for quotas. Don't colleges favor the children of alumni? "[T]here is little if any evidence that sons and daughters of alumni have, as a group, academic credentials even slightly below the norm." Can black interests be represented without racial proportionality? Medicaid, Medicare, remedial education, low-income housing, and other measures thought of as benefiting blacks show inescapably "that sub-

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stantive black interests have received a sympathetic hearing in the councils of government for many years running." Zelnick's sole weakness is a tendency to describe anyone who agrees with him as tall, distinguished, shrewd, or knowledgeable—a minor vice in an otherwise objective, hard-hitting book.

Affirmative Action Fraud is more ambitious (and windier). It too reports on the current state of play—Bolick and Zelnick cite many of the same passages from court decisions, especially to emphasize Thurgood Marshall's deviousness and hypocrisy—but Bolick also seeks to trace the ideological path from civil rights to quotas. His account seems to me correct. The civil rights movement was born, he says, when the right of all men to be free from coercion—the "American Creed"—was seen to conflict with the institution of slavery. This perception led to the Civil War and the Reconstruction Amendments protecting the rights of blacks against incursion by the states. But a fatal misstep was the Civil Rights Act of 1964 banning *private* discrimination. "[C]ivil rights laws went beyond restraints against coercion to tread directly upon voluntary freedom of association among private individuals," clearing the way for "all the mischief that would follow."

The precedent that individual autonomy could be invaded, combined with the view that "black failure to reach parity with whites is due exclusively to . . . oppression," licensed the federal government to tell employers whom to hire, banks whom to lend to, homeowners what neighbors they had to have, and children where they must go to school. The "fraud" is that none of these exertions has helped the population they were actually intended to help, namely the black underclass.

Where Zelnick simply wants affirmative action ended, Bolick holds critics are obliged to propose some positive solution to the problems facing the underclass. His is "empowerment," the centerpiece of which are school vouchers allowing "choice." He is particularly enthusiastic about a Milwaukee program allowing "1,000 low-income children to leave abysmal public schools and to apply the state portion of their education funds—roughly $2,500 per student—as full payment of tuition in nonsectarian private schools."

Such plans, popular among conservatives, are gravely flawed. Bolick delicately avoids mentioning the source of that $2,500, namely the taxpayers of Wisconsin. Vouchers are another device to forcibly transfer money from producers to non-producers and to infringe upon freedom of association. As such, they should be resisted by friends of liberty. □

Professor Levin teaches in the Department of Philosophy at City College and The Graduate Center of The City University, New York, New York.

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